GAO

August 1993

SELF-SUFFICIENCY

Opportunities and Disincentives on the Road to Economic Independence

GAO

United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-252613

August 6, 1993

The Honorable Donald W. Riegle, Jr., Chairman
The Honorable Alfonse M. D'Amato
Ranking Minority Member
Committee on Banking, Housing
    and Urban Affairs
United States Senate

The Honorable Henry B. Gonzalez, Chairman
The Honorable Jim Leach
Ranking Minority Member
Committee on Banking, Finance
    and Urban Affairs
House of Representatives

With the enactment of the Family Support Act of 1988 the Congress and the administration demonstrated a commitment to helping poor families achieve economic independence and self-sufficiency. This commitment was reaffirmed in 1990 with the passage of the Cranston-Gonzalez National Affordable Housing Act (P.L. 101-625). Among other things, this act created the Family Self-Sufficiency (FSS) program, administered by the Department of Housing and Urban Development (HUD), but run by local public housing agencies (PHA). The purpose of the program is to promote the development of local strategies to coordinate the use of rental housing assistance with public and private resources to enable families to achieve economic independence and self-sufficiency.[1]

Among other things, the act requires us to (1) examine "how housing and social service policies affect beneficiaries, particularly persons receiving public assistance,[2] when such beneficiaries gain employment and experience a rise in income" and (2) analyze "the extent to which existing laws regarding housing and other programs create disincentives to upward income mobility..."[3] To (1) satisfy the requirements of this part of the act and (2) better understand the potential of the FSS program to link housing

---

[1] The Cranston-Gonzalez National Affordable Housing Act defines an economic self-sufficiency program as a program designed to enable economically disadvantaged people to achieve economic independence.

[2] The means-tested public assistance programs used in this report are Aid to Families with Dependent Children (AFDC), Medicaid, and the Food Stamp program.

[3] Other requirements of the act were addressed in Public and Assisted Housing: Linking Housing and Supportive Services to Promote Self-Sufficiency (GAO/RCED-92-142BR, Apr. 1, 1992).

GAO/HRD-93-23 Self-Sufficiency

and social service programs to help participants increase earnings and achieve economic self-sufficiency,

- we used the implicit definition of economic self-sufficiency that comes from the act to simulate the earnings required to become economically independent of (no longer qualify for) housing and public assistance programs and to determine how greater earnings affect families' ability to become economically independent;
- we reviewed the empirical literature on the movement into and out of welfare and poverty to determine the characteristics of the poor and beneficiaries of public welfare and the extent to which economically disadvantaged people have become economically independent of public assistance without additional government intervention;
- we reviewed the empirical literature on job training programs to determine the effects such programs have had on increasing the earnings of participants, thereby enhancing their move toward economic independence; and
- we reviewed the empirical literature on welfare program participation and labor supply to assess the disincentive effects that housing and public assistance programs have had on participation in the workforce and the level of work effort.

Results in Brief

Self-sufficiency and economic independence are elusive concepts that may incorporate having a stable and adequate income with reduced or no dependence on federal rental housing and public assistance. The earnings required for a family to become economically independent of (no longer qualify for) housing and public assistance programs varies considerably across states and programs. Families can become economically independent with earnings that are below the poverty threshold for some programs, but need earnings above the poverty threshold to become economically independent of other programs.

Families may achieve economic independence from AFDC and food stamps through increased earnings; however, economic independence from rental assistance is beyond the means of many housing assistance recipients. Economic independence from Medicaid is not well defined since Medicaid coverage may be extended to families and individuals who are medically needy but have varying income levels.

The poor and beneficiaries of public and housing assistance are a diverse group whose characteristics and responses vary and who are poor or

beneficiaries for varying amounts of time. Some recipients of welfare and housing assistance become economically independent without further government assistance after less than 1 year in these programs and do not become dependent on the programs. Other recipients may move on and off public assistance and develop long-term dependency.

Training and supported work programs are successful in increasing the earnings of the economically disadvantaged who participate in them, according to most of the empirical literature. On average, however, the earnings increases are neither enough to lift the individual or family out of poverty nor enough for the family to become economically independent of all housing and public assistance programs.

Empirical literature provides clear evidence that the receipt of AFDC is associated with small disincentives to work effort as measured by reductions in employment, reductions in hours worked, or increases in welfare participation. There is less evidence that Medicaid and food stamps have disincentive effects. As earnings increase, housing and public assistance benefits decrease, which sometimes results in recipients losing more than $1 in benefits for each $1 gained in earnings. That means that by working, some families pay a high price in lost benefits, including Medicaid, for only small increases in net income.

Background

The Poor and Recipients of Housing and Public Assistance Programs Are Not Necessarily the Same

During 1990, approximately 7.1 million families had incomes below the poverty threshold, 4.0 million families received public assistance through AFDC, and 4.5 million families received rental assistance under various HUD subsidy programs. In addition, 20.0 million individuals received food stamps, and 24.3 million individuals received assistance under Medicaid.[4]

Many families received benefits from more than one program, and the working poor were eligible for some programs but not others.[5] Among AFDC families, for example, 24 percent received some type of rental housing assistance and 86 percent received food stamps. Among the long-term recipients of housing assistance (that is, those receiving assistance for

[4]AFDC and food stamp figures are from the average monthly rolls for fiscal year 1989; the rental housing and Medicaid numbers are from Census surveys.

[5]The working poor may be defined as families with wage earnings whose total incomes are below the poverty threshold.

more than 1 year), almost half received assistance from at least one other social welfare program.

Economic Independence and Self-Sufficiency Are Difficult to Define

Economic independence and self-sufficiency are elusive concepts that may incorporate (1) freedom from rental housing and public assistance, (2) earning adequate income to provide for basic needs, and (3) having enough earnings stability to prevent dependency on government benefits. A family may continue to receive benefits even when its income exceeds the federal poverty threshold. On the other hand, many of the working poor have neither incomes adequate to provide for basic needs nor the kind of medical coverage that recipients of public assistance receive under Medicaid (see app. I).

Generally speaking, increased earned income is the major means for low-income families to achieve economic independence. Education and training programs are frequently the means used to enhance the individual's ability to achieve those increased earnings.[6] Families may also need supportive services to maintain the stability required to prevent a return to dependency. We do not know whether the FSS program will result in increased earnings; however, by focusing attention on programs that seek to accomplish many of the same things as the FSS program, we may understand better the potential of the FSS program.

FSS Designed to Help Families Become Self-Sufficient

The FSS program is an ambitious effort to enable some rental housing beneficiaries to move from housing and public assistance programs toward economic independence. It is one of several government programs that have attempted to increase the earnings of low-income workers, including beneficiaries of public assistance, through combinations of training and social services. Recent programs include the Job Training Partnership Act (JTPA) and the Job Opportunities and Basic Skills Training (JOBS) programs.[7]

---

[6]The amount of earnings (and other income) necessary to be considered self-sufficient, however, is not well defined and can vary across programs, states, and family circumstances. For example, it is possible for some families to have earnings that exceed the limits for participation in some programs yet be far below the poverty level. Conversely, other families may have incomes above the poverty level yet continue to qualify for and receive welfare payments.

[7]See the following reports: Job Training Partnership Act: Services and Outcomes for Participants With Differing Needs (GAO/HRD-89-52, June 9, 1988), and Welfare to Work: States Begin JOBS, but Fiscal and Other Problems May Impede Their Progress (GAO/HRD-91-106, Sept. 27, 1991).

Responsibility for the FSS program rests with over 4,000 PHAs that operate the public housing and section 8 rental assistance programs under contract with HUD. The primary role of PHAs in the FSS program is to (1) select FSS participants, (2) provide them with either a public housing unit or a rent subsidy through HUD's Section 8 certificate and voucher program, (3) secure supportive services from local vendors, and (4) coordinate the delivery of those services to participants. The supportive services PHAs draw upon in their service areas can be divided into four groups: (1) job training and education, (2) home production skills (that is, training in homemaking and parenting skills, money management, and household management), (3) removal of barriers to training and eventual employment (for example, child care, transportation, and substance abuse treatment), and (4) any other services and resources needed to assist eligible families achieve economic independence. Since HUD does not provide funds for these supportive services, the two major sources of supportive services will be the JOBS program and JTPA.

An innovation of the FSS program, designed to increase the move toward economic independence and self-sufficiency, is an escrow savings account established by the PHA for each participating family. Escrow savings accumulate as the family's earned income rises. Part of the difference between what the family would have to pay for rent as a result of increased earnings and the family's original pre-FSS rent is deposited into the escrow account. The deposits are phased out once the family's income reaches 80 percent of the median income of all families in the local area. The family receives the full escrow savings only after it no longer receives federal, state, or local housing assistance.[8]

Scope and Methodology

We used simulation of the earnings required to become economically independent and reviews of the empirical literature as the principal methods to address two of the requirements for us in the act. We extended the implicit HUD definition of self-sufficiency and calculated the earnings necessary for a family to become independent of (no longer eligible for) housing and public assistance. The earnings level above which a family is no longer eligible for continued participation is called the break-even level. The 1991 federal poverty threshold of $10,873 in annual income for a family of three (approximately equal to $906 a month, or $6.00 an hour for 150 hours of work a month) and the 1991 federal minimum wage of $4.25 are benchmarks against which the break-even levels may be measured.

---

[8]The family may also withdraw part of the escrow savings before completion of the program if specific interim goals are met.

We simulated the break-even earnings levels for AFDC and the Food Stamp and Section 8 rental assistance programs for families consisting of one adult and two children.[9] We also used these simulations to compute what happens to total income for families receiving assistance from all three programs as their wage earnings increase. In all the simulations, we used 150 hours a month to mean full-time employment.

Using the 1986 Full Panel Research File of the Bureau of the Census' Survey of Income and Program Participation (SIPP), we examined the characteristics of recipients of housing assistance to determine if there were differences between those who leave housing assistance quickly and those who remain for extended periods of time.

We reviewed current theoretical and empirical literature to determine the extent that housing and social service programs create disincentives to upward income mobility. We also reviewed the empirical literature to determine the effectiveness of selected training and employment programs for the economically disadvantaged.

We carried out this work between June 1991 and July 1992 in accordance with generally accepted government auditing standards.

Earnings Required to Become Economically Independent Vary Greatly Across Programs and States

AFDC Break-Even Amounts Vary Across States

The amount of fiscal year 1991 monthly earnings a family of three required to become economically independent of AFDC varied across the states from a low of $385 to a high of $1,111. Full-time workers who headed AFDC families became economically independent when their hourly wages ranged from $2.57 to $7.41, depending on the state in which they resided.

---

[9]We used program data from Characteristics of State Plans for Aid to Families With Dependent Children, 1990-91 Edition, U.S. Department of Health and Human Services, Administration for Children and Families; Characteristics of HUD-Assisted Renters and Their Units in 1989, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, March 1992; and House Committee on Ways and Means, Overview of Entitlement Programs, 102d Congress, 2d Session, May 1992.

Table 1 shows the results for the states with the highest and lowest benefit amounts and the states with benefit amounts in the middle of each of the quintiles (5 groups of 10 or 11 states) of states arranged according to their maximum basic AFDC benefit.[10] In nearly half the states, workers employed full-time at the minimum wage of $4.25 no longer qualified for AFDC. Only 6.7 percent of all AFDC families reported earned income in 1990; their average monthly earnings were $318.

Families who had earnings above the break-even levels for continued participation in AFDC may still be considered poor. In 48 states, families may earn enough to no longer qualify for AFDC, yet continue to have less income than is required to raise the family above the poverty threshold. For families on AFDC to have total family income above the poverty threshold, the basic AFDC benefit would have to increase or the benefit reduction rate would have to decline. Such changes, however, would make many families eligible for public assistance who are not now eligible.

Table 1: AFDC Break-Even Amounts by Earnings and Hourly Wages for Three-Person Families

Fiscal year 1991

State category	State[a]	Basic AFDC grant[b]	Monthly break-even amounts	
			Earnings per month	Hourly wage rate
Lowest	Mississippi	$120	$ 385	$2.57
1st quintile	Arkansas	204	469	3.13
2nd quintile	Florida	294	559	3.73
3rd quintile	Illinois	367	632	4.21
4th quintile	Iowa	426	691	4.61
5th quintile	Connecticut	581	846	5.64
Highest	Alaska	846	1,111	7.41

[a]States listed are the middle state in each quintile.

[b]For a family of one parent and two children.

Source: Data on AFDC grant levels are from Characteristics of State Plans for Aid to Families With Dependent Children, 1990-91 Edition, Department of Health and Human Services, Administration for Children and Families.

Food Stamp Break-Even Amounts Are Uniform in Most States

To become economically independent from food stamps (during fiscal 1992) required that a three-person family in the 48 contiguous states and the District of Columbia have monthly gross earnings of at least $1,207.

[10]The 50 states and the District of Columbia were sorted by increasing AFDC basic benefits and divided into 5 groups of 10 or 11 states, or quintiles.

This is equivalent to earning $8.05 an hour when the family household head works full time. In Alaska, the monthly break-even earnings were $1,510 ($10.07 an hour for a full-time worker), while in Hawaii the break-even earnings were $1,388 ($9.25 an hour). Food stamp recipients may continue to receive benefits until their income is 130 percent of the poverty threshold. As a result, families may continue to receive food stamps after they have become economically independent from AFDC.

High Earnings Are Required to Become Self-Sufficient in Housing

In fiscal year 1992, a three-member family renting a two-bedroom apartment had to earn at least $1,533 a month ($10.22 an hour) to become economically independent in the Section 8 rental assistance program in the state with the lowest fair market rents (FMR).[11] Earnings of $3,022 a month ($20.14 an hour) were required in the state with the highest FMR. Economic independence is not defined for public housing because after families enter public housing there is no maximum income for continued residence as long as the family continues to pay 30 percent of its adjusted gross income for rent.

More than 86 percent of all families who received Section 8 rental assistance in 1989 reported incomes that were less than the $1,533 required to achieve economic independence in the lowest break-even level for housing. For all beneficiaries of Section 8 rental assistance, the median monthly earnings reported were $578. Many families who may have earnings that exceed the break-even levels for AFDC and food stamps nevertheless do not have enough money to afford housing without rental assistance.

Table 2 shows data on the break-even levels for the states with the highest and lowest break-even levels, as well as the state in the middle of the quintiles of states in order of their average FMR. Because of the wide diversity across the states in the break-even levels, economic independence is very much a function of the state in which a family resides (see app. II).

---

[11]HUD establishes FMRs for each metropolitan and nonmetropolitan area in a state. FMRs reflect rents at the 45th percentile for a given number of bedrooms.

Table 2: Section 8 Certificate Housing Break-Even Amounts for Families Renting Two-Bedroom Units

Fiscal year 1992

State category	State	Average fair market rent[a]	Monthly break-even amounts	
			Earnings per month	Hourly wage rate[b]
Lowest	Alabama	$384	$1,533	$10.22
1st quintile[c]	Oklahoma	421	1,658	11.06
2nd quintile	Indiana	458	1,780	11.87
3rd quintile	Michigan	510	1,955	13.03
4th quintile	Illinois	577	2,178	14.52
5th quintile	New Hampshire	712	2,627	17.51
Highest	District of Columbia	830	3,022	20.14

[a]The average FMR is the average of the highest and lowest FMR in the metropolitan areas of a state.

[b]Full time employment of 150 hours of work a month.

[c]States listed are the middle state in each quintile.

Source: Information on fair market rents are from 24 C.F.R. part 888 (Sept. 26, 1991).

Long-Term Recipients Make Up a Small Proportion of the Poverty and Welfare Populations

Although poverty and public assistance touch many Americans' lives, only a small proportion of families with incomes below the poverty threshold remain poor or receive welfare for long periods of time. Almost one-third of the U.S. population was poor at some point during the decade of the 1970s; over 25 percent received benefits from at least one public assistance program. However, only 2 percent of the population was poor or received welfare for all 10 years.[12] Many poverty and welfare spells last no more than 2 years, although some last much longer.[13] The most common events leading to the end of the spell are (1) marriage and (2) increased earned income (see app. III).

Among the AFDC population, 41 percent of all families receiving AFDC in 1990 had a previous AFDC spell. The rate of recidivism suggests that even when families earn enough to become economically independent, their income may not be stable enough for them to become truly self-sufficient.

Most welfare expenditures go to long-term recipients who, while being a small fraction of those who ever receive assistance, make up a large

---

[12]We have no reason to believe that these trends were dramatically different in the 1980s.

[13]A spell is defined as the period of time during which a person or family continuously lives in poverty or receives welfare benefits.

fraction of recipients at a given point in time. These long-term recipients are predominately women; many are disabled, and many have less education and work experience than short-term recipients. While empirical evidence suggests that these long-term welfare spells are not self-perpetuating, it appears that when the children of long-term welfare recipients become adults, they are more likely to receive welfare than individuals whose parents were not long-term recipients. Therefore, helping long-term welfare recipients become self-sufficient may reduce both government welfare expenditures and future welfare dependency among the children of these recipients.

Characteristics of Housing Assistance

Long-term beneficiaries of housing programs, like long-term recipients of AFDC, tend to be families headed by women (70 percent) whose education is limited, according to our analysis of the SIPP data. However, unlike long-term AFDC recipients, long-term housing assistance beneficiaries of both public housing and rental subsidies are more likely to be employed. Long-term rental housing beneficiaries are also more likely to receive welfare assistance than those who receive housing assistance for less than 1 year.[14] Table 3 lists characteristics of household heads receiving housing assistance.

Rental housing assistance is not an entitlement program; although a family's income may meet eligibility criteria, housing assistance is not guaranteed. If no assisted units, certificates, or vouchers are available, the family may be placed on a waiting list. The nonentitlement feature of housing assistance and some communities' long waiting lists may deter families from giving up this assistance.[15] In this respect, housing assistance differs from AFDC, food stamps, and Medicaid, which are entitlement programs allowing families to participate whenever they are eligible.

[14]Welfare assistance includes AFDC, general assistance, food stamps, and Medicaid.

[15]Public and Assisted Housing: Linking Housing and Supportive Services to Promote Self-Sufficiency (GAO/RCED-92-142BR, Apr. 1, 1992).

Table 3: Demographic Characteristics of Household Heads Under 65 Years of Age Receiving Housing Assistance

	Public housing		Rent subsidy	
	1 to 12 months	More than 12 months	1 to 12 months	More than 12 months
Age in years	36.2	39.3	38.3	38.5
Education in years	12.0	10.7	11.4	11.4
Percent female	31	69	49	71
Percent black	14	51	16	36
Percent disabled[a]	22	30	15	29
Percent married	46	27	44	21
Percent receiving welfare[b]	18	49	28	46
Percent working	70	40	81	52
Percent with assets	39	17	38	33

[a]This variable denotes the proportion who were disabled at any time while in the SIPP sample.

[b]Welfare refers to the receipt of AFDC, general assistance, food stamps, or Medicaid.

Source: Bureau of the Census, 1986 Full Panel Research File of the SIPP.

Training Programs Achieve Only Modest Success in Helping Participants Become Self-Sufficient

Training and employment programs are moderately effective in raising the earnings of economically disadvantaged men and women, according to most of the empirical evidence of the last two decades. The average added earnings, however, are modest and not enough to lift families out of poverty. For example, in the second year (1985) after completing the New Jersey On-the-Job Training Program, female participants were earning $4,812 per year on average,[16] which is considerably below the poverty threshold of $8,573 for a family of three in 1985. The positive impacts of training programs were not evenly distributed among participants: some experienced large increases in earnings while others experienced minimal earnings increases. It appears that the earnings increases were the result of more hours worked rather than higher wage rates (see app. IV).

---

[16]This is $787 more than the nonparticipants were earning.

Increasing Welfare Benefits Induces Measurable but Small Disincentive Effects

As AFDC benefit levels increase, there is a small but statistically significant decrease in the average hours of work by AFDC recipients, according to recent empirical studies on AFDC and work effort (see app. V).[17] However, the estimates of the amount by which hours of work are reduced vary widely—ranging from 2 to 8 hours a week. There was no reported evidence that household heads reduced their hours of work to qualify for AFDC benefits.

Only a few studies have examined the effects of multiple-program participation on work effort, so it is difficult to know what the labor response is when families receive AFDC, food stamps, and housing assistance at the same time. The studies suggest that the receipt of Medicaid may induce some disincentive effects, particularly among the medically needy, but the results for all AFDC recipients are inconclusive. Evidence of the impact of the receipt of food stamps on work effort is also inconclusive (see app. V).

In some states, as earnings rise, families who participate in the AFDC, food stamps, and rental housing assistance programs may initially have a decline in total income. This occurs when program rules from several programs combine to initially reduce total benefits by more than $1 for each additional $1 in earnings. In some states, full-time workers must have wages in excess of $6 an hour before their total family income exceeds what they would receive from public assistance if they were not working. Program rules that reduce income in this fashion may act as a disincentive to work effort. The earned income tax credit, however, permits a family's disposable income to increase, because it reduces their tax liability, thereby offsetting some of the disincentive effects of welfare and rental housing assistance programs (see app. II).

Conclusions

To become economically independent, workers in families receiving public assistance and rental housing subsidies must attain earnings levels that are out of the reach of many of them. However, a number of families leave these programs on their own through increased earnings or other means that are outside additional government intervention. For many, the employment that results from training programs provides the opportunity

---

[17]Most of the studies were conducted before the changes in the AFDC program brought about by the Omnibus Budget Reconciliation Act of 1981, which increased the benefit reduction rate to 100 percent—meaning that benefits decline by $1 for each $1 increase in earnings. In addition, during the past decade, several states have changed benefit amounts. Little is known about the disincentive effects of these changes.

to move toward economic independence, even if the family continues to receive benefits from some programs.

The implications of this review for the FSS program are that potential recipients of FSS assistance are likely to be currently eligible for support programs, such as JOBS or JTPA. As such, they would probably respond to those programs in a way similar to those in the programs evaluated in this report; that is, they would experience a small increase in earnings. Data do not exist, however, to determine if the innovation of the FSS program in combining (1) the provision of housing assistance, (2) the establishment of an escrow savings account, and (3) training will be a unique mechanism through which housing assistance recipients leave poverty.

Agency Comments

We did not obtain written agency comments on this report. Officials from HUD's Office of Public and Indian Housing and Office of Policy Development and Research reviewed a draft of this report. They generally agreed with its contents and conclusions. They also suggested some technical changes that we incorporated where appropriate.

Copies of this report are being sent to congressional committees and subcommittees interested in housing, welfare, or poverty issues; the Secretary of HUD; and other interested parties upon request.

This report was prepared under the direction of Joseph Delfico, Director, Income Security Issues, who can be reached at (202) 512-7215. Major contributors to this report are listed in appendix VI.

Janet L. Shikles
Assistant Comptroller General

Contents

Contents

Contents

Figures

Contents

Definition of Self-Sufficiency Poses Problems

Economic independence and self-sufficiency are elusive concepts that may incorporate (1) freedom from rental housing and public assistance, (2) earning adequate income to provide for basic needs, and (3) having enough earnings stability to prevent becoming dependent on government benefits. There is disagreement on what constitutes adequate income; although the poverty threshold is often used as an indicator of well-being, some researchers believe it is too low. Income stability is also an elusive concept for public policy purposes.

We used the concept of economic independence from (no longer eligible for) direct, means-tested transfers as a measure of self-sufficiency. Because the National Affordable Housing Act focuses on beneficiaries of housing assistance and public assistance, we simulated the earnings required for beneficiaries of those programs to become economically independent. We recognized, however, that this concept has limitations, as noted in the following sections.

Break-Even Earnings Levels Define Economic Independence

The earnings level above which a family is no longer eligible for program benefits may be called the "break-even earnings" for that program.[1] Each housing and social service program has its own break-even level and its own rate at which benefits decline until the family is no longer eligible. Once a family reaches the break-even level, it may be considered economically independent from that program. Families may move towards economic independence by increasing their earnings and reducing their dependence on benefits. Complete economic independence may be said to occur when a family's earnings exceed the break-even earnings permitted for continued eligibility in all cash and noncash benefit programs. Because of differences in program eligibility rules and benefit levels, families across programs and states become economically independent at different earnings levels.

---

[1]To show the relationship between family income and economic independence, we defined total family income as the sum of the income resulting from the wage earnings of all the members of a family, the monetary value of transfers from welfare programs, and other nonwage income:

$$Y = w_M * h_M + w_F * h_F + r * Y^N + G_{AFDC} + G_{H} + G_{FS} + G_{MED}$$

In this notation, wage income is a multiple of the wage rate, w, and the hours of work, h. The wage earners may be the male head, M, the female head, F, or both. Nonwage income comes from the flow of returns on assets, $r * Y^N$. Government transfers consist of cash transfers in the form of the AFDC cash grant, G_{AFDC}, and housing assistance, G_H. The noncash transfers are in the form of food stamps, G_{FS}, and the monetary value of Medicaid, G_{MED}. When the value of all cash or noncash transfers goes to 0, a family is said to be economically independent.

Recipients of Housing and Public Assistance Are the Focus of Self-Sufficiency

Recipients of housing and public assistance programs (AFDC, the Food Stamp program, and Medicaid) are the principal focus of the self-sufficiency concept embodied in the National Affordable Housing Act. Other potential groups for self-sufficiency efforts include low-income working families who do not receive subsidies through these programs but do receive means-tested relief, such as the earned income tax credit. Still others may receive assistance through publicly funded training programs, such as JTPA. Families and individuals who do not receive direct transfers, tax relief, or training assistance may be said to be economically independent of those programs.

Some programs, such as rental housing assistance and JTPA, are not able to provide benefits to all families or individuals who qualify for them. Families who are eligible but are not beneficiaries may actually have incomes that are less than those of the beneficiaries. The result is that some families may be considered economically independent even when their incomes are less than those of families who are considered economically dependent. In addition, many of the working poor do not have adequate incomes to provide for such basic needs as medical coverage while recipients of public assistance receive Medicaid.

Some See Poverty Threshold as Too Low to Define Adequate Income

The family income required to meet basic needs is not well defined and there is disagreement about what an adequate income is. The federal poverty threshold has been used as a means of separating the poor from those considered not poor; however, several researchers have suggested that the poverty threshold is too low to be an adequate income.[2] Each program sets its own income limits for determining eligibility, and these limits vary widely. For the AFDC program, the states set a need standard for basic needs that include food, clothing, shelter, and utilities. Although the AFDC need standard may sometimes exceed the poverty level, in January 1992, no state paid benefits in excess of the 1991 poverty threshold. For food stamps, the income limit for eligibility (for nonelderly households) is 130 percent of the poverty threshold, while for rental housing assistance, the income limit is generally 50 to 80 percent of the median income of the area or state in which the family lives.

---

[2]Ruggles (1990) suggested that the poverty threshold should be raised by 50 percent to make it comparable to the earliest use of the poverty measure. Schwarz and Volgy (1993) suggested that the real poverty threshold should be 155 percent of the official poverty threshold.

Benefit Levels Are Standardized Nationally in Some Programs but Not Others

A further complication for defining self-sufficiency is that benefits are standardized nationally for food stamps,[3] but in the AFDC and rental housing assistance programs the benefit levels are determined by the state or area in which the family resides. Consequently, families with identical income levels can be considered economically independent in one state or area, but not in another. As a result, no single level of income is appropriate for all definitions of self-sufficiency.

---

[3]Food stamp benefits are higher in Hawaii and Alaska.

Determination of Break-Even Levels for Public Assistance and Housing Programs

To examine how housing and social service policies affect beneficiaries, particularly when beneficiaries gain employment and increase their incomes, we simulated what would happen to a typical family who receives benefits from AFDC, food stamps, and rental housing assistance under the Section 8 certificate program. We calculated the minimum level of earnings necessary for a three-member family to become economically independent and determined how beneficiaries of housing and public assistance programs are affected as their earned incomes rise.

AFDC Is the Largest Public Assistance Cash Transfer Program for Low-Income Families

AFDC, the largest public welfare cash transfer program for low-income families, is a combined federal-state program established under title IV-A of the Social Security Act of 1935. It was designed to provide cash benefits to families with dependent children when the families' earned incomes fall below set limits. AFDC is an entitlement program, which means that benefits are guaranteed if the family meets the dependence, income, and asset eligibility requirements.

States set the need standards[1] and basic benefit levels that determine whether a family's income and assets make it eligible for AFDC.[2] States establish (within federal guidelines) income and resource limits, and administer the program. The basic benefit is the monthly grant that a family would receive if it had no other income. The need standard and the basic benefit are determined by family size. As of October 1, 1990, in 17 states the basic benefit was equal to 100 percent of the need standard; 34 states paid benefits that ranged from 32 to 94 percent of the need standard.[3]

Federal law sets eligibility conditions, including specifications for how to determine net earnings and the rate at which benefits decline when net earnings increase. The following are the major deductions from gross income used in calculating net earnings:

- earned income of a full-time student;
- the first $50 of any child support payments for the current month;
- child care costs up to $175 per child aged 2 or older and $200 for each child under the age of 2;

---

[1]The basic need standard represents the cost of the basic living needs that the state recognizes as essential for all applicants or recipients.

[2]In this report, "states" refers to the 50 states and the District of Columbia. AFDC payments also go to eligible residents of Guam, Puerto Rico, and the U.S. Virgin Islands, but data on them are not included.

[3]California limited the amount for families of 10 or more to $1,468 per month.

- the first $90 of earnings; and
- $30 plus one-third of earnings during 4 consecutive months, $30 only during the next 8 months.

The relationship among these deductions, the basic grant, and the amount of funds received by the family may be shown in an equation:

$$G_{AFDC}=B_{AFDC}-t_{AFDC}(w^*h-90-175^*NC-EXP)$$

In this equation, G_{AFDC} is the AFDC cash grant received by the family; B_{AFDC} is the basic cash grant when the family has no other income; t_{AFDC} is the rate at which benefits decline for the employed (when wages and earnings are both greater than zero) after all deductions are taken, NC is the number of children over 2 years old for whom the child care deduction is taken; and EXP is all other allowable expenses.

AFDC Benefit Levels and Program Requirements Have Changed Frequently

Between 1968 and 1991, states changed the need standards and the basic benefit amounts frequently even as the federal government was changing some of the eligibility requirements. Many of the states increased their need standards without changing the amounts of their basic benefits. The amount of the increase in the basic benefit was rarely indexed to inflation. Over this time, the basic benefit amount, in real dollars, fell in every state except California.

Between 1968 and 1981, when calculating net earnings, states were required to disregard the first $30 the recipient earned monthly, plus one-third of additional earnings, and any expenses (including child care) reasonably attributable to the earning of any such income. As part of the Omnibus Reconciliation Act (OBRA) of 1981, the disregard was set at the first $75 of monthly earnings (in lieu of itemized work expenses), the cost of child care up to $160, and, for the first 4 consecutive months, $30 plus one-third of earnings not previously disregarded. Under the Family Support Act of 1988, the $75 disregard was increased to $90, and the child care disregard was increased to $175 ($200 per month for a child under the age of 2).

Calculation of the AFDC Break-Even Wages and Break-Even Hours of Work

For each state, we calculated the gross earnings that a family can receive so that when the allowable deductions were made, it would no longer be eligible for AFDC benefits. We used fiscal year 1990 program requirements and benefit levels with the following set of simplifying assumptions in the calculations:

- a three-member family (one adult and two children);
- $90 a month earnings deduction;
- one child care deduction of $175 per month;
- AFDC has been received for 4 months; and
- employment is for 150 hours each month.[4]

AFDC Break-Even Levels Vary Across the States

The break-even earnings, wages, and hours of work in each state for the AFDC program under the conditions stated above are presented in table II.1. The data show that the AFDC break-even levels varied widely across the states as a result of the wide variation in the basic AFDC benefit. The monthly break-even earnings varied from a low of $385 to a high of $1,111, with a median of $632. These variations mean that in the AFDC program, families can be considered self-sufficient at widely differing levels of earnings. A family can attain self-sufficiency through any combination of hours of work and wages that produce the break-even earnings.

---

[4]The weekly average hours worked for all private, nonfarm employees in 1990 was 34.5 hours; this is approximately equal to 150 hours a month.

Table II.1: AFDC Break-Even Levels by State for Three-Person Families

Fiscal year 1991

State	Basic AFDC grant	Monthly break-even levels	
		Monthly earnings	Hourly wage rate[a]
Alabama	$124	$ 389	$2.59
Alaska	846	1,111	7.41
Arizona	293	558	3.72
Arkansas	204	469	3.13
California	694	959	6.39
Colorado	356	621	4.14
Connecticut	581	846	5.64
Delaware	338	603	4.02
District of Columbia	428	693	4.62
Florida	294	559	3.73
Georgia	280	545	3.63
Hawaii	632	897	5.98
Idaho	315	580	3.87
Illinois	367	632	4.21
Indiana	288	553	3.69
Iowa	426	691	4.61
Kansas	383	648	4.32
Kentucky	228	493	3.29
Louisiana	190	455	3.03
Maine	453	718	4.79
Maryland	406	671	4.47
Massachusetts	579	844	5.63
Michigan	474	739	4.93
Minnesota	532	797	5.31
Mississippi	120	385	2.57
Missouri	292	557	3.71
Montana	370	635	4.23
Nebraska	364	629	4.19
Nevada	330	595	3.97
New Hampshire	575	840	5.60
New Jersey	424	689	4.59
New Mexico	310	575	3.83
New York	577	842	5.61
North Carolina	272	537	3.58
North Dakota	401	666	4.44

(continued)

Fiscal year 1991

| | | Monthly break-even levels | |
State	Basic AFDC grant	Monthly earnings	Hourly wage rate[a]
Ohio	334	599	3.99
Oklahoma	321	586	3.91
Oregon	444	709	4.73
Pennsylvania	403	668	4.45
Rhode Island	554	819	5.46
South Carolina	210	475	3.17
South Dakota	385	650	4.33
Tennessee	195	460	3.07
Texas	184	449	2.99
Utah	402	667	4.45
Vermont	679	944	6.29
Virginia	291	556	3.71
Washington	501	766	5.11
West Virginia	249	514	3.43
Wisconsin	517	782	5.21
Wyoming	360	625	4.17

Note: The basic AFDC grant is the amount provided to a three-member family with no other family income.

[a]The hourly wage rate was determined using 150 hours of work a month.

Source: Characteristics of State Plans for AFDC, Department of Health and Human Services, Office of Family Assistance (Washington, D.C.: GPO, 1990-91).

The hourly wage break-even levels ranged from a low of $2.57 (significantly below the minimum wage of $4.25) to a high of $7.41. In 24 of the states, the break-even wage at full employment was above the minimum wage and in these states, economic independence was attained whenever a family had a full-time worker earning the minimum wage or more. This does not mean, however, that the family had income above the poverty line. In 48 states, a family with a full-time worker would become economically independent from AFDC at earnings below the 1991 poverty level of $10,873 for a family of three.

Food Stamp Program Break-Even Levels Are Uniform Across Most States

Food stamp basic benefits are uniform for a given family size in the contiguous 48 states and the District of Columbia. Benefits are higher in Alaska and Hawaii. Eligibility for food stamps is automatic for non-elderly households made up entirely of AFDC, Supplemental Security Income (SSI) and general assistance recipients, and is set at 130 percent of the applicable poverty threshold, updated for inflation. In 1991, a family of three could qualify if its gross income was as much as $1,207 a month in 48 states and the District of Columbia, $1,510 in Alaska, and $1,388 in Hawaii. AFDC income is counted in the determination of the benefit amount of food stamps. Adjusted income (for each dollar of which benefits decline at the rate of $0.30) is the household's gross income, which includes all cash income except incidental, training, or education-related income, less the following deductions:

- 20 percent of any earned income;
- $122 standard deduction for all households in the 48 contiguous states and the District of Columbia, $209 for Alaska, and $173 for Hawaii;[5]
- work- or training-related, out-of-pocket dependent care payments of up to $160 a month for each dependent; and
- any shelter expenses that exceed 50 percent of adjusted income, up to $194 a month in the 48 contiguous states and the District of Columbia, $337 for Alaska, and $276 for Hawaii.[6]

For continued participation in the Food Stamp program, the break-even earnings and wage rates for full-time workers in three-member households are shown in table II.2 (as family size increases, the basic grant and the break-even levels also increase). A family of three in the 48 states and the District of Columbia can continue to receive food stamps until its gross earnings reach $1,207 a month or the head of the family earns $8.05 an hour at a full-time job. In Alaska and Hawaii, the break-even levels are substantially higher because the basic benefits are higher. Clearly, the food stamp break-even levels are higher than the break-even levels for AFDC. This means that as earnings rise, families become economically independent of AFDC before ending their eligibility for food stamps. However, AFDC participation is not necessary to receive food stamps.

---

[5]The standard deduction is inflation-indexed each October. The deductions listed are for fiscal year 1992.

[6]The shelter expense deduction is inflation indexed, with the deductions shown for fiscal year 1992.

Table II.2: Break-Even Earnings and
Hours of Work for a Three-Member
Household in the Food Stamp Program

Fiscal year 1992

| State | Basic food stamp benefit | Break-even levels | |
		Monthly earnings	Wages[a]
48 states and District of Columbia	$292	$1,207	$ 8.05
Alaska	374	1,510	10.07
Hawaii	477	1,388	9.25

Note: The basic food stamp benefit is the monthly amount of food stamp eligibility for households that have no other income.

[a]The hourly wage rate was determined using 150 hours of work a month.

Housing Assistance Break-Even Levels for Rental Housing Assistance

We estimated break-even earnings levels for families who rented a two-bedroom apartment and received rental housing assistance under the Section 8 certificate program.[7] Because rental housing assistance is a rationed system in which some potentially eligible families do not receive benefits, these break-even levels apply only to those families.

Housing assistance is provided for families with low or very low incomes through project-based or household-based public housing and Section 8 rental certificates and vouchers.[8] Rental housing assistance is not an entitlement program, so of the 13.8 million families deemed income-eligible, about 4.5 million families received rental assistance. The approximately 1.1 million families who received rental assistance under the Section 8 certificate or voucher program generally paid 30 percent of their monthly adjusted income for rent, which for certificate holders cannot exceed the FMR for that area.[9] Adjusted income is gross income, including earnings and AFDC, minus allowable deductions.

To calculate the break-even earnings and hourly wages in a state, we used the average of the highest and lowest metropolitan area FMR for a

[7]Generally, residents of public housing pay 30 percent of their adjusted income for rent and are not required to move out of public housing as their incomes increase. Accordingly, there is no break-even earnings level for public housing.

[8]Low-income families are those whose annual income does not exceed 80 percent of the median income for the area, as determined by HUD. Very low-income families are those whose annual income does not exceed 50 percent of the median income.

[9]HUD surveys housing markets to determine what the FMR payment should be in metropolitan and nonmetropolitan areas in a state. The FMR then becomes the basis for setting the Section 8 certificate payment. The voucher program uses a payment standard that is 80 to 100 percent of the value of the FMR but, unlike the certificate program, families are not required to pay 30 percent of their incomes for rent. We used the FMRs because they are published annually for each state.

two-bedroom rental unit. Deductions from earnings included $40 a month for each of two children and a single child care expense of $175 a month. The resulting break-even monthly earnings and wage rates for each state are shown in table II.3.

To become self-sufficient in housing, the representative three-member family had to earn between $1,533 ($18,396 in annual earnings) and $3,022 a month, with a median income of $1,983. For full-time workers, the range in hourly wage rates to become self-sufficient was $10.22 to $20.14, with a median wage of $13.22. In each state, the break-even levels for housing exceeded, by far, the break-even levels for AFDC and food stamps.

Of the programs we analyzed, housing required the highest earnings level for the family to become self-sufficient. Low-income and very low-income families, whose earnings when they enter assisted housing programs are less than 80 percent of the area median, would need to experience a relatively large increase in income before they became economically independent in housing.[10] The prospects for such earnings increases are likely to be poor; consequently, few families are likely to become self-sufficient if it requires earnings that exceed the break-even levels for rental housing assistance.

Table II.3: Break-Even Levels for Section 8 Certificates for Families Renting Two-Bedroom Units

Fiscal year 1992

| | | Break-even levels | |
State	Average fair market rent[a]	Monthly earnings	Wages an hour[b]
Alabama	$ 384	$1,533	$10.22
Alaska	672	2,495	16.63
Arizona	566	2,142	14.28
Arkansas	417	1,643	10.96
California	708	2,613	17.42
Colorado	534	2,033	13.56
Connecticut	782	2,862	19.08
Delaware	577	2,178	14.52
District of Columbia	830	3,022	20.14
Florida	495	1,905	12.70
Georgia	473	1,832	12.21
Hawaii	775	2,837	18.91
			(continued)

[10]The median annual income of families who received rental assistance from the voucher or certificate program was $6,941 in 1989. Among these renters, 86 percent reported that their annual income was less than $15,000.

Fiscal year 1992

State	Average fair market rent[a]	Break-even levels	
		Monthly earnings	Wages an hour[b]
Idaho	504	1,933	12.89
Illinois	577	2,178	14.52
Indiana	458	1,780	11.87
Iowa	483	1,863	12.42
Kansas	594	2,233	14.89
Kentucky	418	1,647	10.98
Louisiana	459	1,783	11.89
Maine	614	2,302	15.34
Maryland	613	2,298	15.32
Massachusetts	739	2,717	18.11
Michigan	510	1,955	13.03
Minnesota	537	2,043	13.62
Mississippi	440	1,722	11.48
Missouri	423	1,665	11.10
Montana	501	1,923	12.82
Nebraska	452	1,762	11.74
Nevada	742	2,727	18.18
New Hampshire	712	2,627	17.51
New Jersey	710	2,620	17.47
New Mexico	536	2,040	13.60
New York	666	2,475	16.50
North Carolina	425	1,670	11.13
North Dakota	452	1,760	11.73
Ohio	436	1,708	11.39
Oklahoma	421	1,658	11.06
Oregon	548	2,082	13.88
Pennsylvania	507	1,943	12.96
Rhode Island	615	2,305	15.37
South Carolina	408	1,615	10.77
South Dakota	428	1,682	11.21
Tennessee	433	1,698	11.32
Texas	477	1,845	12.30
Utah	438	1,713	11.42
Vermont	563	2,132	14.21
Virginia	602	2,262	15.08
Washington	544	2,067	13.78

Fiscal year 1992

| | | Break-even levels | |
State	Average fair market rent[a]	Monthly earnings	Wages an hour[b]
West Virginia	467	1,812	12.08
Wisconsin	519	1,983	13.22
Wyoming	572	2,160	14.40

[a]For families renting two-bedroom units.

[b]The hourly wage rate was determined using 150 hours of work a month.

Source: Federal Register, Vol. 56, No.187 (Sept. 26, 1991).

Break-Even Earnings Are Not Defined for Medicaid

There is no consistent way to calculate break-even earnings for the receipt of medical insurance through Medicaid, a federal-state matching entitlement program providing medical assistance for AFDC and other low-income persons and families. Some categories of categorically or medically needy families who do not qualify for AFDC may, at the discretion of the states, receive Medicaid coverage. The income limits for eligibility for Medicaid coverage generally are set at less than 185 percent of the poverty threshold. However, some families are covered even when their incomes exceed this amount. Given these difficulties, we did not calculate break-even earnings for Medicaid.

How Beneficiaries of Three Programs Are Affected as Their Earnings Increase

To determine how three-member families are affected as their earnings increase, we calculated what happens to total income for families receiving AFDC, food stamps, and housing certificates, incorporating program rules for all three programs (see app. I for definition of total income).[11] We used data for Arkansas, Florida, Illinois, Iowa, and Connecticut; these states were selected from the quintiles (5 groups of 10 or 11 states) in which the states were arrayed by increasing value of the maximum AFDC benefits they paid to three-member households.[12] The results show what happens when families in these states receive benefits from all programs and when the head of the family (1) works 150 hours a month and the wage rate increases and (2) earns $10.00 an hour and the

[11]These changes in income depict what happens to total gross income as earnings increase. Families face a host of taxes—federal income taxes, social security taxes, and state and local taxes—that affect net income and thus the well-being of the family. These taxes are not considered in this section.

[12]The states were selected judgmentally to show what happens, over a range of states, to total income as wage earnings increase. These states are only illustrative.

hours of work increase. These results are shown in figures II.1 and II.2 and summarized in tables II.4 and II.5. Similar results for changes in wages or hours of work could be calculated for all states.

As Earnings Rise, Program Rules May Make the Family Initially Worse Off

As earnings rise, families who receive AFDC, food stamps, and housing subsidies may initially have reduced total incomes, making them financially worse off than if they had not worked. In Arkansas, Florida, Illinois, and Iowa, when the household head worked full-time (150 hours a month) at the federal minimum wage of $4.25 an hour, the net gain from working ranged from $178 to $2 a month. In Connecticut, however, such families may see their incomes reduced by as much as $93 a month.

When heads of families earned at the rate of $10 an hour and worked as many as 80 hours a month, there was still only a small gain in income from employment compared with not working and receiving AFDC, food stamps, and housing subsidies. At 80 hours a month, the gain from employment in Arkansas, Florida, Illinois, and Iowa ranges from $265 to $89 a month. In Connecticut, however, the head of a family who only worked 80 hours actually had $33 less income than if he or she had not worked.

Figure II.1: How Beneficiary Income Changes as Wages Change (Fiscal Year 1990)

Wages an Hour

———— Arkansas
— — Florida
•••••• Illinois
— • — Iowa
▪—▪—▪ Connecticut
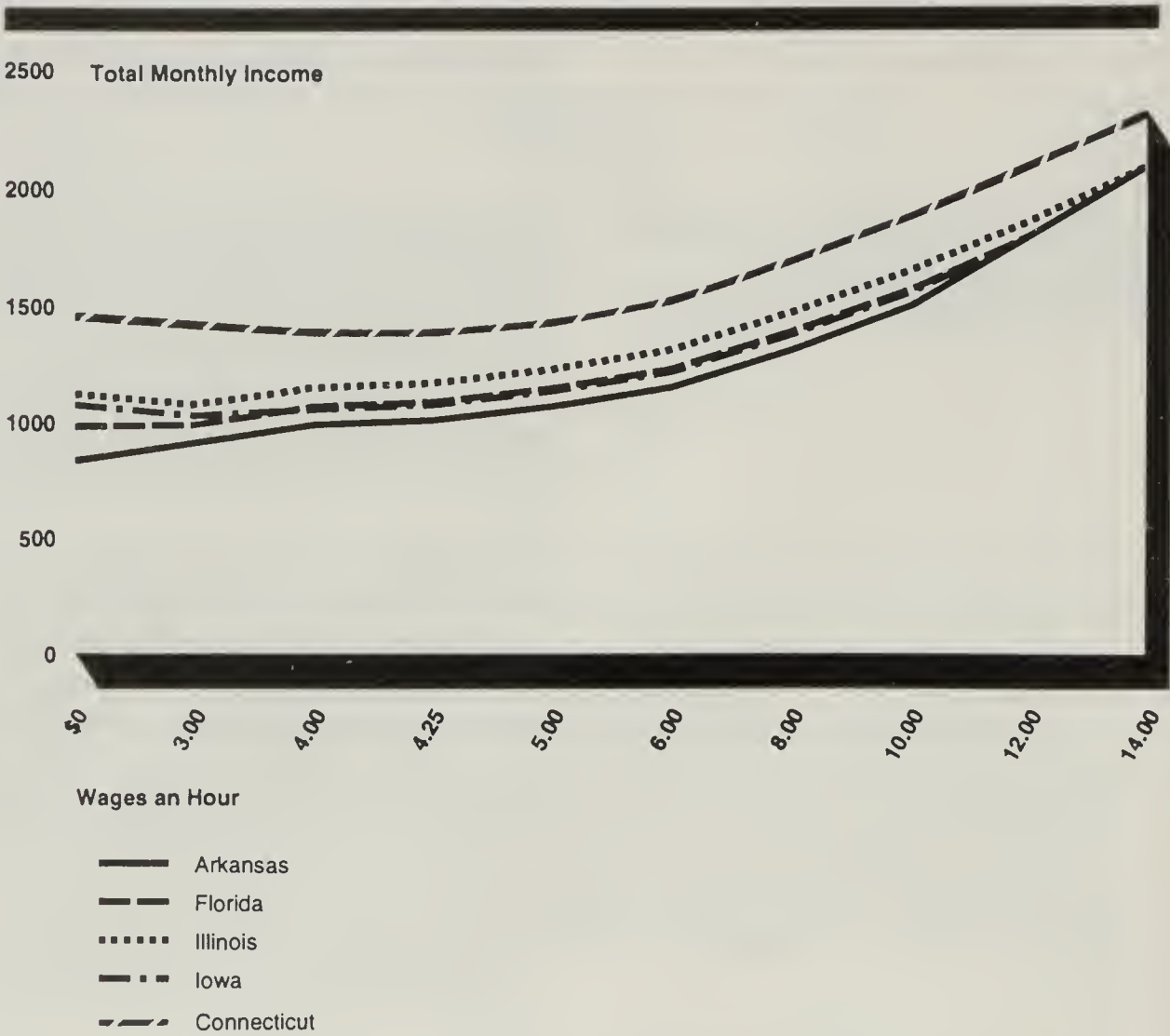
Note: Total monthly income was defined as the sum of wage earnings, AFDC, the cash value of food stamps, and the housing subsidy. Hours of work per month was set at 150 hours. The minimum wage was $4.25 an hour. All other assumptions are discussed in the text.

Table II.4: How Beneficiary Income Changes as Wages Change

Fiscal year 1990

Wages per hour	Total monthly income[a]				
	Arkansas	Florida	Illinois	Iowa	Connecticut
$ 0	$ 832	$ 981	$ 1,121	$ 1,074	$ 1,495
3.00	910	988	1,076	1,029	1,450
4.00	990	1,068	1,150	1,056	1,411
4.25	1,010	1,088	1,170	1,076	1,402
5.00	1,070	1,148	1,230	1,136	1,435
6.00	1,150	1,228	1,310	1,216	1,515
8.00	1,309	1,387	1,469	1,375	1,674
10.00	1,500	1,569	1,651	1,557	1,856
12.00	1,800	1,800	1,861	1,800	2,066
14.00	2,100	2,100	2,100	2,100	2,276

[a]The calculation of total income used employment of 150 hours a month.

Figure II.2: How Beneficiary Income Changes as Hours of Work Change (Fiscal Year 1990)
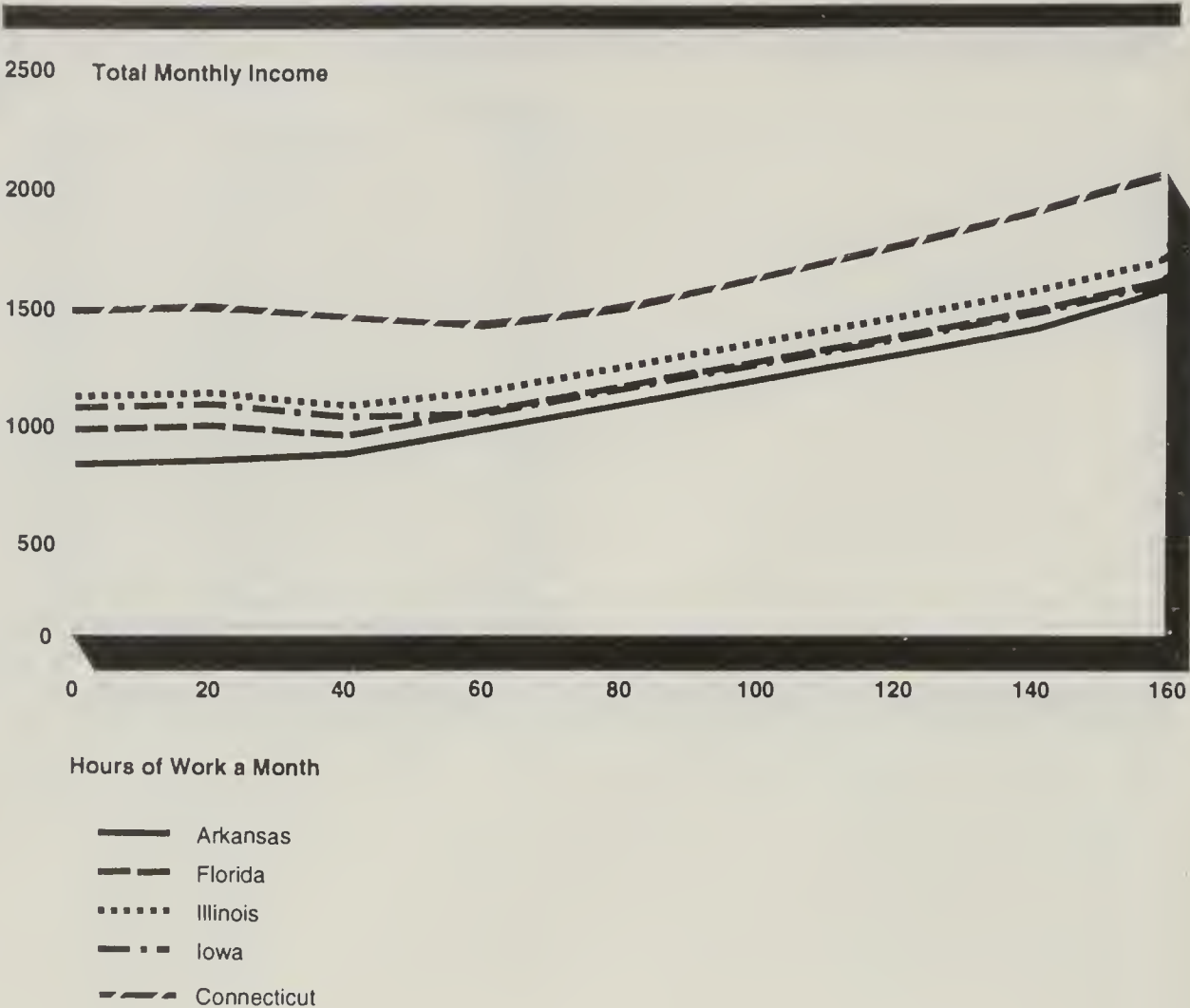
Note: Total monthly income is defined as the sum of wage earnings, AFDC, the cash value of food stamps, and the housing subsidy. The wage rate was set at $10.00 an hour. All other assumptions are discussed in the text.

Table II.5: How Beneficiary Income Changes as Hours of Work Change

Fiscal year 1990

Hours of work per month	Total monthly income[a]				
	Arkansas	Florida	Illinois	Iowa	Connecticut
0	$ 832	$ 981	$ 1,121	$ 1,074	$ 1,495
20	852	1,001	1,140	1,093	1,515
40	884	962	1,089	1,041	1,463
60	990	1,068	1,150	1,056	1,411
80	1,097	1,175	1,257	1,163	1,462
100	1,203	1,281	1,363	1,269	1,568
120	1,309	1,387	1,469	1,375	1,674
140	1,421	1,499	1,581	1,487	1,786
160	1,600	1,639	1,721	1,627	1,926

[a]The calculation of total income used a wage rate of $10 an hour.

Total family income may decline, over some earnings interval, as the wages or the amount of hours worked each month increases. Total income declines because the benefit-reduction rates from the combination of programs produce a greater than $1 decrease in total income for each $1 increase in earned income. This reduction is equivalent to a greater than 100-percent marginal tax on earnings.[13] When the uncompensated expenses of employment are included (for AFDC beneficiaries this may include loss of medical coverage through Medicaid), there is a potential for a disincentive to work until total earnings are large. Consequently, workers who earn only at the minimum wage or can only work part time may be financially worse off than those who do not work at all.

The Earned Income Tax Credit Increases Family Disposable Income

The earned income tax credit (EITC) increases the disposable income of working families and may induce incentives to employment. Working families who had one or more children and incomes less than $22,370 (in fiscal year 1992) may have been eligible for a refundable tax credit under the EITC program. Eligible low-income workers with two or more qualifying children may claim a refundable annual credit of up to $1,384 for incomes of $11,840. After that income level is reached, the amount of the credits is phased out until the family income reaches $22,370. EITC does not affect the break-even levels for participation in AFDC, food stamp, or rental housing assistance programs, but by allowing working families to

---

[13]Marginal tax rates are the combined tax rate on an additional dollar of earnings.

have greater disposable income, it is designed to increase the incentive to work.

Implications for Self-Sufficiency and the FSS Program

Our analysis of the break-even levels suggests that families may leave AFDC through wage earnings, but it is difficult for such families to become self-sufficient in housing programs. If self-sufficiency is measured by the success of the FSS program in helping people earn enough to no longer be eligible for housing assistance, the prospects for success may be limited. In all states, to become completely self-sufficient, the head of a family's wages must exceed $10.00 an hour for full-time work. It is unknown whether families in programs—that is, those already receiving housing assistance and participating in FSS—will be able to achieve these earning levels.

Characteristics of the Poor and Welfare Recipients

The poverty population can be divided into two groups. One group consists of people who are poor for fairly short periods of time. Those in the other group are poor for extended periods of time. Welfare recipients can also be divided into two groups: short-term recipients and long-term recipients. The long-term poor and long-term welfare recipients are overlapping groups and share many of the same characteristics. Many are not readily employable since they tend to be disabled, or single mothers of young children, and have little education, little work experience, or few job skills.

To judge the potential of families to become self-sufficient, a clear understanding of the persistence of poverty and welfare receipt is needed. This appendix focuses on the characteristics of the poverty population and welfare recipients. We review the literature on the duration of poverty and welfare spells,[1] the events initiating and ending these spells, the extent of welfare dependency,[2] and the intergenerational transmission of welfare dependency.

Much of our knowledge about the dynamics of poverty and welfare receipt comes from studies published in the 1980s and 1990s that use longitudinal data from the 1970s and early 1980s. There have been changes in existing welfare programs and in the economy during the 1980s that may have affected poverty and welfare dynamics. When possible, we present evidence from recent point-in-time studies to judge whether the evidence from the 1970s and early 1980s is still relevant.

Characteristics of the Poor

The poverty statistics reported in the Current Population Reports are derived from the March Current Population Survey (CPS).[3] The point-in-time nature of the CPS, however, prevents distinguishing permanently impoverished people from those just temporarily disadvantaged. Evidence from longitudinal data shows that there is considerable turnover among the poor. This suggests that the "snapshot" from point-in-time data may provide a distorted picture of the poor. When

---

[1]A poverty spell is defined as the period of time that a family's income is continuously below the poverty threshold. A welfare spell is defined as the period of time that a family continuously receives welfare.

[2]The term welfare dependency is used to refer to (1) long-term reliance on welfare or (2) current receipt of welfare inducing greater future participation. Our discussion of welfare dependency examines the validity of both of these definitions.

[3]The CPS is a nationally representative monthly survey of U.S. households conducted by the Bureau of the Census; in March of each year, respondents answer questions about their annual earnings for the previous year.

appropriate, we compared results from longitudinal data with those from point-in-time data.

Most Poverty Spells Are Relatively Short

Most poverty spells last no more than 2 years, but point-in-time evidence provides a different characterization of the poor. An analysis by Bane and Ellwood (1986)[4] showed that over half of the poor (51.5 percent) at a given time were in the midst of a poverty spell that would last 10 years or more. This suggests that almost 6 percent of the U.S. population[5] were long-term poor. Bane and Ellwood also found that another 17 percent were in the midst of spells lasting 5 to 9 years.

Point-in-time evidence, however, gives a misleading picture of the poor since the long-term poor stay poor for extended periods of time and end up being a sizable fraction of the poverty population at any point in time. Duncan, Coe, and Hill (1984), using the PSID to look at the dynamics of poverty, examined the population during the 10-year period from 1969 to 1978. As can be seen in table III.1, 2.1 percent of the population were poor in all 10 years.[6] On the other hand, almost a third of the U.S. population was poor sometime during this 10-year period. Looking at the PSID from a slightly different angle, Bane and Ellwood found that 60 percent of all people starting a spell of poverty had spells lasting only 1 or 2 years, and another 16 percent had spells lasting 3 to 4 years. Clearly, most poverty spells are relatively short.[7]

---

[4]Bane and Ellwood used the Panel Study of Income Dynamics (PSID), which is a nationally representative longitudinal data set that has followed individuals and families since 1968.

[5]The poverty rate in 1978 was 11.4 percent.

[6]Duncan, Coe, and Hill used 1.25 times the official poverty threshold to construct the numbers for this table. Hence, their point-in-time estimate of the poverty rate closely approximated that from the CPS because PSID respondents report income more accurately than CPS respondents.

[7]A recent analysis of the SIPP by the U.S. Bureau of the Census (1990) suggested that turnover of the poverty population was just as extensive in the mid-1980s as it was in the 1970s.

Table III.1: Short-Term Versus Long-Term Poverty (1969-78)

Numbers in percent of the U.S. population	
Poor in 1978	11.0
1969-78	
Poor 1 or more years	32.5
Poor 5 or more years	11.0
Poor 8 or more years	5.1
Poor 10 years	2.1

Source: Greg Duncan, Richard Coe, and Martha Hill, "The Dynamics of Poverty," in Duncan and others, Years of Poverty, Years of Plenty (1984), p. 41.

The characteristics of the poor differ depending on the length of the observation period from which the data are drawn. A breakdown of the "persistently poor," the "temporarily poor," and the poor at a point in time (that is, in 1978) are shown in table III.2. Women make up the majority (62 percent) of the persistently poor; men make up the bulk of the temporarily poor (75 percent). In addition, 41 percent of the persistently poor are disabled. A greater proportion of the poor (both persistent and temporary) live in large urban areas (cities of 500,000 or more) than in rural areas (towns of 10,000 or less).

Table III.2: Demographic Characteristics of the Poor

Numbers in percent of poor	Persistently poor[a]	Temporarily poor[b]	Poor in 1978
Elderly (>64 years)			
Female	15	6	13
Male	12	7	8
Nonelderly			
Female	47	20	49
Male	26	68	30
Disabled	41	15	31
Rural	24	20	19
Urban	33	32	30
Black	58	15	41

[a]The persistently poor are defined as poor in 8 or more years of the 10-year period between 1969 and 1978.

[b]The temporarily poor were poor for 1 or 2 years during the same period.

Source: Greg Duncan, Richard Coe, and Martha Hill, "The Dynamics of Poverty," in Duncan and others, Years of Poverty, Years of Plenty (1984), p. 52.

Poverty Rates for Black Children and White Children Differ

A major concern of policymakers is the growing number of children who are living in poverty and the racial disparity of this poverty. In 1968, the poverty rate based on the federal poverty threshold for people under 18 years old was 15.6. This poverty rate had increased to 19.6 by 1989. We can break down this rate by length of time spent in poverty. The 15-year experience with poverty of children under the age of 4 in 1968 is shown in table III.3. The majority (56 percent) of white children lived in families who had incomes 1.5 times the poverty threshold in all 15 years. Another 19 percent of white children lived in families with incomes above the poverty line but not always above 1.5 times the poverty threshold. Of the rest, most lived in families who were poor for 4 years or less.

The story is much bleaker, however, for black children: only 21 percent of all black children lived in families with incomes above the poverty level in all 15 years. Another 32 percent lived in families with incomes below the poverty threshold for 1 to 4 years; 29 percent lived in families below the poverty threshold for 10 or more years.

Table III.3: 15-Year Poverty Experience of Children Under the Age of 4 in 1968

Numbers in percent of children

	White	Black
Always above 150 percent of poverty threshold	56	13
Never poor but not always above 150 percent of poverty threshold	19	8
Poor 1 to 4 years	20	32
Poor 5 to 9 years	5	18
Poor 10 to 14 years	1	24
Poor 15 years	0	5

Source: "Welfare Dependency," statement by Greg Duncan, University of Michigan, before the Subcommittee on Social Security and Family Policy, Senate Committee on Finance (1991), p. 120.

Diverse Events Associated With the Starting and Ending of Poverty Spells

Bane and Ellwood (1986) examined events associated with the starting and ending of poverty spells and found that 38 percent of all poverty spells began with a fall in the labor earnings of the household head.[8] They also found that 11 percent began with a fall in the earnings of a secondary worker (spouse or other family member) in the household. Another 11 percent began with a transition to a female-headed family and, of these transitions, 38 percent were due to marital breakup and 21 percent were due to the birth of a child to a single female. Recent point-in-time evidence

[8]Bane and Ellwood used PSID data from 1970 to 1982 for their study. They defined families with incomes below 1.25 times the official poverty threshold as poor.

shows that the birthrate for unmarried women increased by 31 percent between 1980 and 1988.[9] This suggests that in the 1980s, a transition to a female-headed family may have become slightly more important in initiating poverty spells.

Bane and Ellwood also found that most poverty spells ended because earnings increased: 50 percent ended with a rise in the labor earnings of the household head and 23 percent ended with a rise in the earnings of a secondary worker in the household. For female household heads with children, 26 percent of poverty spells ended with marriage, remarriage, or reconciliation. That route out of poverty, however, may have lessened in the 1980s as the marriage rate fell by 8 percent.

Characteristics of Welfare Recipients

Female household heads are the majority of those who receive welfare for extended periods of time. Duncan and Coe (1984) showed that, of the individuals who received benefits from at least one welfare program for 8 or more years between 1969 and 1978, 67 percent were women and 42 percent were disabled.[10] Ellwood (1986) and O'Neill and others (1987) found that never married women and women with little education tended to have much longer first spells on AFDC. Women with disabilities or less work experience have longer first and subsequent spells plus above average probabilities of recidivism. Furthermore, the research of O'Neill and others (1987) showed that long-term AFDC recipients were more likely to have lived in single-parent families when they were children and to have had a child out of wedlock.

Relatively Few Families Are Long-Term Welfare Recipients

While the welfare system touches the lives of many families, it appears that the contact is brief for most families. Results from Duncan and Coe (1984) showed that in 1978, 8.1 percent of the population received benefits from at least one welfare program.[11] But if one looks at welfare receipt over a 10-year period, the same pattern emerges as with poverty:[12] over 25 percent of the U.S. population received some welfare at some time between 1969 and 1978, but only 2 percent received welfare in all 10 years. Ellwood (1986), using the PSID, focused on AFDC receipt over a 15-year

---

[9]Statistical Abstract of the United States: 1991, 111th edition, U.S. Bureau of the Census (Washington, D.C., 1991), tables 82 and 92.

[10]Only the AFDC, general assistance, SSI, and the Food Stamp programs were considered.

[11]Duncan and Coe used the PSID and examined only the AFDC, general assistance, SSI, and the Food Stamp programs.

[12]Compare with table III.1.

period. He found that about 50 percent of those who ever received AFDC received it for less than 4 years; nearly 25 percent received AFDC for 10 or more years. He further estimated that within 3 years after an AFDC spell ended, almost 31 percent of the former recipients returned to AFDC.

The estimated length of an AFDC spell depends on whether annual data or monthly data are used. For example, Blank (1989a), using monthly data from the Seattle-Denver Income Maintenance Experiments (SIME/DIME), estimated that the average length of completed AFDC spells was 13.3 months. Fitzgerald (1991), using monthly data from the 1984 SIPP panel, estimated the median AFDC spell to be 20 months. Using annual data from the PSID, Ellwood (1986) estimated that the average length of an AFDC spell was 4.4 years (52.8 months). The difference between the short durations found by Blank and Fitzgerald and the longer duration found by Ellwood is explained by this fact: the PSID does not distinguish receiving AFDC for a few months during the year from receiving AFDC for the entire year. Classifying someone with a series of short AFDC spells separated by 1 or 2 months as someone with one long spell, however, is desirable since our focus is on welfare dependence: people who leave welfare for short periods of time and then return are at least partially dependent on welfare for the entire period.

Events Leading to or Ending AFDC Spells

Several events dominated the beginning and ending of AFDC spells. By far the most important event initiating an AFDC spell was divorce or separation, which accounted for 45 percent of the spells (see table III.4). Childbirth to a single female accounted for 30 percent of initiating events. Recent trends, however, suggest that the importance of divorce as an initiating event may have lessened and childbirth to a single mother may have become more important.[13] As for termination events, marriage and reconciliation are the most common. Another 21 percent of AFDC spells end with an increase in the female household head's labor earnings.

---

[13]Statistical Abstract of the United States: 1991, Bureau of the Census, table 82.

Table III.4: Beginning and Ending Events of AFDC Spells

Numbers in percent of AFDC spells	
Beginning events	
Divorce and separation	45
Childbirth to single female	30
Earnings fell for female household head	12
Earnings fell for other family members	3
Other income fell	1
Other	9
Ending events	
Marriage and reconciliation	35
Child leaves home	11
Earnings rose for female household head	21
Earnings rose for other family members	5
Transfer income rose	14
Other	14

Source: Greg Duncan and Saul Hoffman, "The Use and Effects of Welfare: A Survey of Recent Evidence," Social Science Review (June 1988), p. 245.

The work of O'Neill and others (1987) showed that in the late 1960s and 1970s, 31 percent of the AFDC recipients left welfare through marriage within the first year while only 19 percent left welfare through other means. Blank (1989a) found that in the 1970s, the likelihood of leaving AFDC through marriage increased with age, was negatively affected by high unemployment levels, and was lower for nonwhites. The probability of leaving AFDC through increased earnings was positively correlated with education level, but was negatively affected by the number of children in the family. Fitzgerald (1991) showed that these results were equally valid in the mid-1980s.

Little Evidence That AFDC Spells Are Self-Perpetuating

Research results, using data from the 1970s to mid-1980s, suggest that if a welfare duration dependence effect (welfare trap)[14] exists it is, at best, small. Plant (1984, p. 683) examined the issue of welfare duration dependence and, using data from the SIME/DIME, found that the "evidence pointing towards a welfare trap is at best weak." However, O'Neill and others (1987) found that the amount of time AFDC was received had a negative effect on the probability of leaving AFDC. But their evidence did not distinguish between the existence of a welfare trap and unmeasured

[14]Welfare duration dependence is defined as current AFDC receipt inducing greater future AFDC participation.

(that is, unobserved) differences among individuals. Such differences include many characteristics (for example, motivation) that still cannot be measured. A measured duration dependence effect may be due to the fact that over time, as the more motivated find jobs, the group who remains on AFDC longer is composed of an increasingly larger proportion of people less able and willing to find work. Blank (1989a) and Fitzgerald (1991) found that long AFDC spells appear to be neither created nor lengthened by the time spent on AFDC per se, but rather that unobserved differences are quite important in explaining duration dependence.

Evidence of Intergenerational Transfer of Welfare Recipiency

Corcoran and others (1987), Gottschalk (1990), and Solon and others (1988) explored the extent of intergenerational transfer of welfare participation; they found a positive correlation between mothers' welfare participation and daughters' welfare participation. These results lead to an important question: is the intergenerational correlation due to the parent's receipt of AFDC affecting the child's behavior or to unmeasured family and neighborhood characteristics shared by mother and daughter? The policy implications are obvious: if the correlation is due to the parent's receipt of AFDC, then making parents self-sufficient will increase the likelihood that their children will be self-sufficient as adults; if the correlation is due to unmeasured family and neighborhood characteristics, then intervention with the family and in the neighborhood is warranted. Recent studies by Antel (1992) and Gottschalk (1992a, 1992b) found evidence that a mother's welfare recipiency per se appeared to increase the likelihood of welfare recipiency by her daughters who were exposed to welfare at home as children.

Implications for Self-Sufficiency and the FSS Program

Two disparate groups appear to rely on welfare assistance. One group, the majority, consists of those who are welfare recipients for a relatively short time before becoming self-sufficient. Welfare is a temporary safety net for these people. The other group relies on welfare for long-term income maintenance. Many in this group are not, in general, readily employable since they tend to be disabled, single mothers of young children, have little education, little work experience, and few job skills.

The success of the FSS program depends on the extent to which the program can move families to self-sufficiency who otherwise would not become self-sufficient on their own. Therefore, the potential impact of the FSS program in reducing welfare dependency and moving participants toward self-sufficiency hinges on the extent to which recipients of housing

assistance fall into the group of long-term welfare recipients. Furthermore, research suggests that parents becoming self-sufficient reduces the likelihood that their daughters will receive welfare as adults. Hence, parents who become self-sufficient through the FSS program are more likely to have children who will be self-sufficient as adults.

The Effectiveness of Training and Employment Programs for the Disadvantaged

The effectiveness of past training and employment programs in raising the earnings of economically disadvantaged men and women has been modest. Although the benefits from these programs (that is, decreased welfare payments and increased tax revenues) generally outweigh the costs to the government, the added earnings received by participants, on average, have not been enough to lift their families out of poverty. But much is still unknown about the long-term effects of training on earnings and earnings growth since evaluations of these programs typically only followed participants for 1 to 3 years.

Under the FSS program, public housing agencies will not provide training, but rather will refer participants to existing training programs, such as JTPA and JOBS programs. The effectiveness of these programs has not been extensively studied. In this appendix, we review some of the literature pertaining to the effects of training and employment programs for the economically disadvantaged; we focus primarily on the programs that targeted public assistance recipients. In our review, we also include recent preliminary results from evaluations of JTPA and JOBS.

Training programs can be judged on their impact on whether trainees go on to have higher earnings, a higher probability of gaining employment, and a lower probability of becoming unemployed once employed. Additional concerns in judging the effectiveness of training programs are cost of training relative to future reductions in transfer payments and the amount that future earnings increase, raising the earnings of the trainee above the poverty line, and short-term gains versus long-term gains.

Review of Federal Training Programs

Numerous federally funded training programs have been designed to assist the economically disadvantaged become job ready. These programs have targeted different groups among the disadvantaged population and have had mixed success.

In the first major federal training program since the Depression, the Manpower Development and Training Act (MDTA) of 1962 offered vocational and on-the-job training to workers displaced by technological advances. Over time, however, the emphasis of MDTA shifted to serving the more disadvantaged unemployed as training this group for work became part of the federal agenda during the war on poverty.

The Work Incentive (WIN) program, started in 1968, required adults in AFDC households with children 6 years of age or older to register and participate

Appendix IV
The Effectiveness of Training and
Employment Programs for the
Disadvantaged

in a welfare-to-work program or risk losing their AFDC grants. Initially, the WIN program provided participants with job search assistance, training, and other skill enhancement services. By 1971, however, the emphasis had shifted to direct job placement. The federal government paid for 90 percent of the costs, and the states paid the other 10 percent. Due to resource constraints, participation in the WIN program was often limited to registering AFDC recipients without providing any training or other services.

The Comprehensive Employment and Training Act (CETA) of 1973 consolidated many of the training programs for the disadvantaged with direct job creation efforts such as the Public Employment Program. In addition, the CETA program conducted some experimentally designed studies of programs such as the National Supported Work (NSW) demonstration. The NSW demonstration was one of the few training programs with a randomly selected comparison group and was directed toward four disadvantaged target groups: young dropouts, ex-addicts, ex-offenders, and long-term AFDC recipients. Participants were then offered up to 12 months of carefully tailored work experience.

CETA was superseded by JTPA in 1982. This represented yet another shift away from direct job creation toward training and job search assistance to combat unemployment. The largest funded program of JTPA is title II-A, which provides block grants to the states to target the economically disadvantaged for job search assistance, on-the-job training, and classroom training. Burtless (1989) noted that about one-fifth of the participants funded under title II-A have come from families receiving AFDC benefits.

The centerpiece of the Family Support Act of 1988 is the JOBS training program for AFDC recipients. The states operate the JOBS program, and the federal government provides matching funds. The JOBS program differs from the WIN program in two key respects: the emphasis is on human capital development (that is, education, job readiness activities, on-the-job training, and job skills training), and minimum participation standards have been set for the states. Furthermore, coverage of the program has been extended (relative to the old WIN program) to include AFDC applicants and recipients with children 3 to 5 years of age, and potential long-term AFDC recipients are targeted (55 percent of JOBS funds are to be spent on these families).[1]

---

[1]Those targeted are from families in which the custodial parent is under the age of 24 and has no high school degree or little work experience, the youngest child is within 2 years of AFDC ineligibility, or the family received AFDC during 36 of the prior 60 months.

Appendix IV
The Effectiveness of Training and
Employment Programs for the
Disadvantaged

Methodological Issues in the Evaluation of Training Programs

In measuring the effectiveness of a training program, the researcher would like to compare the labor market outcome for a participant after the training with what the labor market outcome of the participant would have been in the absence of the training. Unfortunately, this is not possible; therefore, researchers are forced to compare the labor market outcome for participants with that for a comparison group using one of three methods. One is to compare the labor market outcome for the participant after training with the outcome before training. A drawback of this method is that it is invalid for youth and young adults who have no work experience before the training program. Furthermore, this method ignores the effects of the passage of time on the participant and changing economic conditions.

A second method is to create a comparison group that has essentially the same characteristics as the participant group. One way is to create the comparison group from another data set such as the CPS or the PSID. It is not known, however, if any of the members of the comparison group are participating or have participated in the training program under study. This contamination of the comparison group leads to an error-in-variables problem since program participation (the variable of interest) may be inaccurately measured.

Sometimes, for voluntary training programs, researchers choose the comparison group from those who were eligible to participate but chose not to. This method, however, introduces some major problems. Although the comparison group has many of the same observable characteristics as the participant group, the unobservable characteristics of these two groups probably differ in some systematic manner.[2] As a result, an observed positive effect of the program cannot be separated from the possibility that those in the participant group are more motivated than those in the comparison group and would have done better in the labor market anyway.[3]

A third method is an experimental design with random assignment. With this method, those who apply for training are randomly assigned to either the experimental group who receive training or to the comparison group who do not receive training. In this manner, both the observable and unobservable characteristics of the two groups do not differ in any systematic way. The impact of the training program can then be

---

[2] This problem is known as sample selection bias.

[3] If the program operators cream the best from the pool of eligible people, then the results will overstate the actual positive effect of the training program.

Appendix IV
The Effectiveness of Training and
Employment Programs for the
Disadvantaged

Page 49

determined by directly comparing the outcomes of the participants with the outcomes of the comparison group.

Focusing, for the moment, on the earnings effects of training, some of the methodological problems of evaluation can be illustrated with the aid of figure IV.1. In this diagram the horizontal axis measures time and the vertical axis measures earnings. The single solid line represents the earnings stream for program participants.[4] The drop in earnings at time t represents the phenomenon of "preprogram dip" in which program participants usually experience a marked decline in earnings (and employment) immediately before selection into the program. This is due, in large part, to the requirement that participants be unemployed before training. This preprogram dip presents problems when judging the effectiveness of training. For example, when comparing pre- and postprogram earnings, if the earnings dip is temporary, then the participant's earnings would have returned to the thin dashed line and the program's true earnings effect is the difference between the solid and thin dashed line. The observed effect, however, is the difference between the solid and thick dashed lines, which overstates the value of training. On the other hand, if the dip is permanent then the effect on earnings is the difference between the solid and thick dashed lines.

---

[4]As drawn, it is assumed that selection into the program and subsequent training occur instantaneously.

Appendix IV
The Effectiveness of Training and
Employment Programs for the
Disadvantaged

Figure IV.1: Earnings Stream for Participants and Comparison Groups
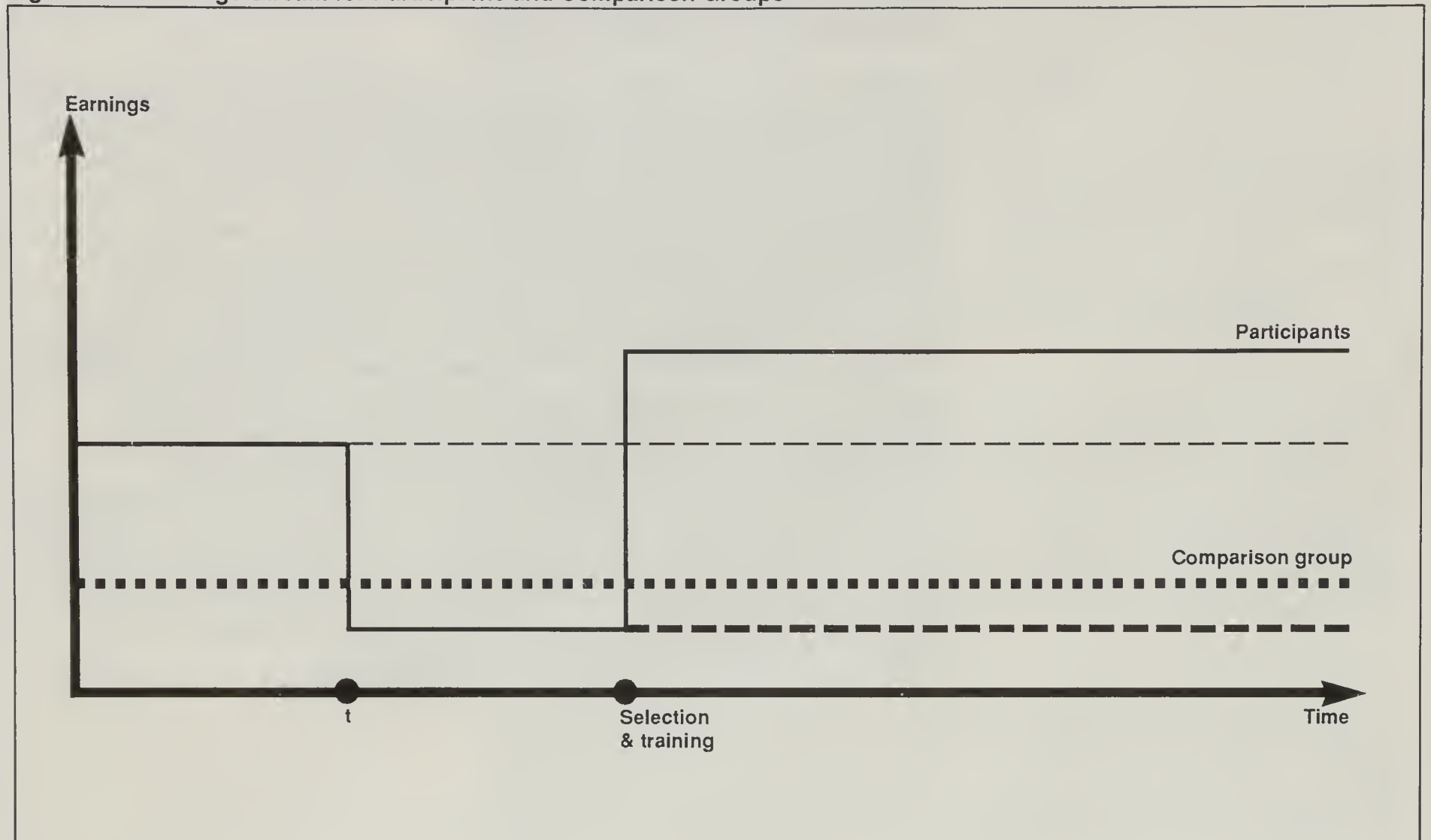
The problem of using a nonexperimental comparison group can also be illustrated. Suppose the earnings stream for the comparison group is indicated by the dotted line. If the preprogram dip is permanent, then, using this comparison group, the positive effect of training will be understated. The reverse will be true if the earnings dip is temporary. Only by using random assignment to generate the comparison group can the researcher estimate what the participants' probable earnings stream would have been in the absence of the program.

The NSW demonstration was one of the first to use random assignment to generate the comparison group. Consequently, researchers have been able to compare the results of an evaluation with a nonexperimental comparison group with the results obtained from the NSW demonstration's experimental design. LaLonde (1986) made this comparison with

Appendix IV
The Effectiveness of Training and
Employment Programs for the
Disadvantaged

nonexperimental comparison groups selected from the PSID and the CPS. The estimated program effects using a nonexperimental comparison group, he found, differed substantially from the experimental results. LaLonde and Maynard (1987), using the same data, examined nonexperimental estimates and found that the estimates were sensitive to comparison group definitions and the econometric methods employed. LaLonde (1986, p. 617) concluded that "the available nonexperimental evaluations of employment and training programs may contain large and unknown biases resulting from specification errors."

Empirical Studies of Training Programs Suggest Modest Earnings Gains

Nearly every training and employment program has been evaluated at one time or another. Some of the programs targeting the economically disadvantaged and evaluated using randomization techniques to develop the comparison group are listed in table IV.1. It is difficult to directly compare the results of one program with those of another because of differences in the delivered services, the extent of the use of sanctions, local labor market conditions, the degree to which the program is mandatory, and the group targeted. Nevertheless, we discuss some of the common features of and findings from these programs.

Table IV.1: Training Programs Targeting Disadvantaged Individuals and Evaluated Using Randomization Techniques

Program (start date)[a]	Target group	Mandatory/ voluntary	Services	Net cost per participant	Outcome (participant-comparison difference) Annual earnings	Annual AFDC payments
1. Arkansas WORK Program (1983)	AFDC applicants and recipients with children 3 years of age or older	Mandatory	Job search assistance; unpaid work experience	$ 118	Year: 1. $167[b] 2. 223 3. 337[d]	−145[b] −190[b] −168[b]
2. Baltimore Options Program (1982)	AFDC applicants and recipients with children 6 years of age or older	Mandatory	Job search assistance; education; job skills training; on-the-job training	953	Year: 1. 149 2. 401[b] 3. 511[b]	2 −34 −31
3. Cook County WIN Demonstration (1985)	AFDC applicants and recipients with children 6 years of age or older	Mandatory	Job search assistance; unpaid work experience	157	Year: 1. 10	−40

(continued)

Appendix IV
The Effectiveness of Training and
Employment Programs for the
Disadvantaged

Program (start date)[a]	Target group	Mandatory/ voluntary	Services	Net cost per participant	Outcome (participant-comparison difference)	
					Annual earnings	Annual AFDC payments
4. Louisville WIN Laboratory Experiment (1978)	AFDC applicants and recipients with children of any age	Mandatory and voluntary	Individual job search assistance	136	Year: 1. 289[b] 2. 456[b] 3. 435[b]	−75 −164[b] −184[b]
5. Maine On-the-Job Training Program (1983)	Unemployed AFDC recipients on rolls for 6 or more months with children of any age	Voluntary	Employability training; unpaid work experience; subsidized on-the-job training	2,019	Year: 1. 104 2. 871[b] 3. 941	64 29 80
6. New Jersey On-the-Job Training Program (1984)	AFDC recipients over 18 years of age with children of any age	Voluntary	Subsidized on-the-job training	787	Year: 1. [c] 2. 591	−190[b] −238
7. San Diego SWIM (1985)	AFDC applicants and recipients with children 6 years of age or older	Mandatory	Job search assistance; unpaid work experience; education; job skills training	919	Year: 1. 352[b] 2. 658[b]	−407[b] −553[b]
8. Virginia Employment Services Program (1983)	AFDC applicants and recipients with children 6 years of age or older	Mandatory	Job search assistance; unpaid work experience; education; job skills training	430	Year: 1. 69 2. 280[b] 3. 268	−69 −36 −111[b]
9A. NSW Demonstration (1976)	AFDC recipients	Voluntary	Structured paid work experience	10,147[d]	Year: 1. 409 2. 386 3. 66 4. 721 5. 735[b] 6. 866[b] 7. 682[b] 8. 619	[c]
9B. NSW Demonstration (1976)	Youths	Voluntary	Structured paid work experience	7,582[d]	Year: 1. 15 2. 259 3. 101 4. 119 5. 28 6. −12 7. 28 8. −56	[c]

(continued)

Appendix IV
The Effectiveness of Training and
Employment Programs for the
Disadvantaged

Program (start date)[a]	Target group	Mandatory/ voluntary	Services	Net cost per participant	Outcome (participant-comparison difference)	
					Annual earnings	Annual AFDC payments
10A. National JTPA Study (1987)	Economically disadvantaged women	Voluntary	Job search assistance; job skills training; on-the-job training	c	First 18 months: 444[b]	c
10B. National JTPA Study (1987)	Economically disadvantaged men	Voluntary	Job search assistance; job skills training; on-the-job training	c	First 18 months: 453	c
10C. National JTPA Study (1987)	Out-of-school youth	Voluntary	Job search assistance; job skills training; on-the-job training	c	First 18 months: Female: −150 Male: −703[b]	c
11A. California GAIN (1988)	AFDC applicants and recipients who are single parents with children 6 years of age or older	Mandatory	Basic education; skills training; on-the-job training; job search assistance; unpaid work experience	c	Year: 1. 223[b]	−231
11B. California GAIN (1988)	AFDC applicants and recipients who are household heads of two parent families with children of any age	Mandatory	Basic education; skills training; on-the-job training; job search assistance; unpaid work experience	c	Year: 1. 309[b]	−346

(Table notes on next page)

Appendix IV
The Effectiveness of Training and
Employment Programs for the
Disadvantaged

Note: Dollar amounts are in evaluation year dollars except for rows 4, 9, 10, and 11, which are in 1985 dollars.

[a]The start date refers to the start of intake for the research sample and not to the start of the actual program.

[b]Signficant at the 95-percent confidence level.

[c]Not available.

[d]These figures include the trainees' subsidized wages and fringe benefits. If these are excluded (for example, treated as transfers rather than costs), then the net costs are $3,457 for AFDC trainees and $3,011 for youth.

Sources:
Items 1-8: Judith Gueron and Edward Pauly, From Welfare to Work (1991).
Items 9A and 9B: Kenneth Couch, "New Evidence on the Long-term Effects of Employment Training Programs," Journal of Labor Economics (1992); Robert LaLonde, "Evaluating the Econometric Evaluations of Training Programs with Experimental Data," American Economic Review (1986); Gueron and Pauly, From Welfare to Work.
Items 10A-10C: Gueron and Pauly, From Welfare to Work; Howard Bloom and others, The National JTPA Study (1992).
Items 11A and 11B: James Riccio and Daniel Friedlander, GAIN: Program Strategies, Participation Patterns, and First-Year Impacts in Six Counties (1992).

In judging the effectiveness of programs, three points need to be kept in mind. First, the results of evaluations only indicate what the effects of the program are when and where it is operated under the experimental conditions, not what the results would be if the program were operated nationwide under normal (nonexperimental) conditions. Second, evaluations also provide no information on the program's effects on people who did not participate in it. For example, participants may obtain jobs that, in the absence of the program, would have gone to others. Finally, evaluation results for one target group cannot be used to predict the effectiveness of the training program on a group not previously targeted.

A variety of services has been offered through the various training programs. Some of the most common are subsidized employment and training (public service employment, subsidized work experience, and on-the-job training), classroom training, education (high school completion and general education development test), and job search assistance. The cost to taxpayers has varied dramatically from low-cost job search assistance (about $118 per participant) to high-cost paid work experience (about $10,000 per participant).[5] However, Friedlander and Gueron (1992) pointed out that past studies did not provide definitive

---

[5]The costs per participant listed for job search assistance and paid work experience are in 1985 dollars.

Appendix IV
The Effectiveness of Training and
Employment Programs for the
Disadvantaged

answers on whether more expensive services increase program effectiveness.

For the most part, these programs have had a positive effect on the annual earnings of the participants. It appears that the positive impacts are slightly higher for voluntary programs. This could be because the voluntary programs draw participants who are on average more job ready and more motivated than participants enrolled in mandatory programs.

Most of the programs that have been evaluated targeted AFDC recipients. As can be seen from table IV.1, these programs raised annual earnings and generally led to reduced AFDC payments to these women. First-year increases in earnings ranged from as little as $10 to as much as $409,[6] with greater increases in subsequent years.[7] Couch (1992), in his study of the long-term effects of the NSW demonstration, obtained earnings records for participants and the comparison group for 8 years. His results indicated that for the AFDC recipient target group, the positive impact of supported work persisted through all 8 years.

The earnings gains shown in table IV.1, however, represent a 1- to 38-percent increase in annual earnings. In the first year after completion of the program, participants in the Arkansas WORK program were earning, on average, $673 per year; participants in the San Diego Saturation Work Initiative Model (SWIM) program were, on average, earning $2,028 per year.[8] In subsequent years, female participants earned as much as $4,812 after completing the New Jersey On-the-Job Training Program. After completing any of the programs targeting female AFDC recipients, the participants still earned considerably less than the poverty threshold, which was $7,231 for a family of two in 1985. Recent research by Belman and Heywood (1991) and Blank (1990), however, suggested that employed women can expect their earnings to grow at 1 to almost 3 percent per year after inflation. Furthermore, Gueron and Pauly (1991) noted that the positive average impacts probably resulted from large increases in earnings for some people and minimal increases for others.

The programs targeting disadvantaged men also appear to increase the earnings of participants. The results from the National JTPA study indicated

---

[6]All dollar amounts reported here and below are in evaluation year dollars (1983-85).

[7]Most of the impacts reported for AFDC recipients are statistically significant (see table IV.1).

[8]These amounts represent the lowest and the highest annual earnings, respectively, of all the programs listed in table IV.1 that target AFDC recipients.

Appendix IV
The Effectiveness of Training and
Employment Programs for the
Disadvantaged

that participant's annual earnings were approximately $7,013, on average, after completion.[9] The results from the California Greater Avenues for Independence (GAIN) Program[10] for participants in the AFDC Unemployed Parent Program (predominately men) were also statistically significant but less encouraging with average earnings of $2,369 for participants. Again, these annual earnings still left most participants with annual earnings below the poverty threshold.

The few programs that have included out-of-school youth showed disappointing results. The programs have had negligible and even negative (but generally statistically insignificant) impacts on the annual earnings of both male and female youth.

Ham and LaLonde (1991) examined the duration of employment and unemployment spells for AFDC recipients participating in the NSW demonstration. The participants' employment rates, they found, were raised because the program helped those who found jobs to hold onto them longer. But the program had no apparent effect on the probability that the participants would become employed in the first place. In contrast, Card and Sullivan (1988) found, in an evaluation of the CETA program, that for adult males participation increased both the probability of becoming employed and the probability of continuing employment.

The results from the NSW demonstration suggest that for AFDC recipients, both hours worked and hourly wage rates were increased (Bassi and Ashenfelter, 1986). Combined with Ham and LaLonde's (1991) results, it appears that, on average, those in the AFDC target group who found employment worked longer hours for higher wages and kept their jobs for a longer period as a result of participating in the training program. More recent results from the National JTPA study suggest that the earnings gain for economically disadvantaged men and women was, however, due primarily to increases in the number of hours worked, rather than to higher hourly wages.

Benefits of Training Programs Generally Outweigh the Costs

From a government budget perspective, benefit-cost evaluations of many of the training programs targeting AFDC recipients indicated that the returns were greater than the cost. Although the effects on participants' earnings of these programs were modest, Blank (1992) stated that the

[9]The numbers reported by Bloom and others (1992) were for the first 18 months after completion of the program. We adjusted their numbers to reflect earnings for the first year to facilitate comparisons with the other studies.

[10]The California GAIN program was established in 1985; in 1988, it began operating as the state's JOBS program.

Appendix IV
The Effectiveness of Training and
Employment Programs for the
Disadvantaged

costs of these programs were generally recouped within a few years through reductions in AFDC and other welfare payments and increased tax revenues.

Implications for Self-Sufficiency and the FSS Program

The available evidence suggests that training and employment programs are effective in raising the earnings of economically disadvantaged men and women. However, the added earnings, on average, are not enough to lift their families out of poverty. Most of the studies evaluating training and employment programs followed the participants and comparison group for only a short period of time after training is completed, typically 1 to 3 years. Consequently, the long-term effects of training on earnings and earnings growth are not known.

To the extent that recipients of housing assistance are like AFDC recipients or other economically disadvantaged people, the evidence reported above suggests that the FSS program will have only a modest impact on moving families toward self-sufficiency. The results also suggest that these families will still earn incomes substantially below the poverty threshold after completing the program.

The FSS program, however, is also designed to encourage families to accumulate savings. The added impact that this will have on the movement to self-sufficiency is unknown. The best way to determine the effectiveness of training combined with the accumulation of savings on families receiving housing assistance is to evaluate the program. Studies of the NSW demonstration highlight the importance of an experimental design with random assignment for evaluating training and employment programs. Nonexperimental comparison groups can give biased estimates for the effectiveness of these programs.

Disincentive Effects of Public Welfare Programs

As part of the legislation creating the FSS program, we were required by the Congress to analyze "...the extent to which existing laws regarding housing and other programs create disincentives to upward income mobility."[1] In this appendix, we provide this analysis, define disincentive effects from the perspective of economic theory, summarize the conceptual basis for defining how disincentives operate, and review how these disincentives are measured in the empirical literature.

To gain information about the disincentive effects of public assistance programs (also known as transfer programs), we assessed some of the recent theoretical and empirical literature. As part of our review, we focused on the evidence from the literature concerning the disincentive effects of AFDC, food stamps, and Medicaid. The disincentive effects of the receipt of rental housing assistance are not well defined and we were unable to find studies on disincentives for work effort.[2] Consequently, we cannot discuss whether the receipt of housing assistance acts as a disincentive to upward income mobility.

A disincentive effect is said to exist when, as a consequence of the existence or receipt of welfare and housing programs, there are

- reductions in the rate of participation in the labor market;
- reductions in the hours worked per week, month, or year; or
- increases in the rate of participation in welfare programs.

All of these activities are reductions in work effort as measured by time devoted to seeking employment or being employed. It is possible to participate in welfare programs and still work or seek employment; however, increases in the rate of welfare participation are usually associated with a reduction in work effort.

---

[1]Public Law 101-625, 104 Stat. 4232, section 554(b)(2)(D).

[2]Murray (1980) estimated the work disincentives in the public housing program but did not observe work effort directly. Instead, he inferred work disincentives by looking at the work disincentive effects of other programs.

Economic Models of Labor Supply Are Used to Estimate Disincentive Effects

To measure disincentive effects, economists construct and estimate models of the labor supply decisions of the individual.[3] Generally, economists measure changes in the level of work effort when there are changes in the benefit level and the rate at which benefits decline as earnings increase. In these models, leisure (all nonwork hours) and consumption are positive inputs into an individual's well-being. The models assume that the individual selects the combination of leisure and consumption that makes the family best off, subject to the income available to the family.

To measure disincentive effects, economists typically estimate the income and substitution effects of changes in the benefit levels and the benefit-reduction rates. The relationship between changes in income (from any source) and changes in hours of work, when the wage rate is held constant, is called the income effect. As the worker's income rises, the amount of leisure the worker desires increases (since leisure is considered a normal good) and the amount of hours the individual desires to work decreases. But, to net out the influence of the value the worker places on leisure, the wage is held constant and economists measure what happens when nonlabor income rises. It is expected that the income effect will be negative, that is, as nonlabor income increases, the worker will desire to work less.

The relationship between a change in the wage rate and the hours of work gives rise to conflicting income effects and substitution effects. When the wage rate increases and the worker works the same number of hours, income will increase. This income effect is expected to cause the worker to desire to work less. However, rising wages mean that the price of leisure has gone up (at the margin, the price of leisure is the wage rate). Raising the price of leisure leads to a decline in the demand for leisure, thereby causing the worker to desire to work more. This is the substitution effect. To measure the substitution effect, the wage is allowed to change while total income is held constant.

To measure income and substitution effects, economists typically estimate a two-equation model of labor supply and wage rates:

Labor supply equation:

---

[3]Pencavel (1986) summarized the literature on the labor supply of men; Killingsworth and Heckman (1986) did the same for women. Kaufman (1989) also summarized many of the labor supply issues discussed here. Our discussion in this appendix focuses on the labor supply of the female head in a single-parent household. Most of the households that receive AFDC are headed by single women.

$$LS_t = \delta B_t + \lambda T_t + \alpha w_t + \sum_{j=1}^{J} X_{jt} \beta_{jt} + \eta_{1t}$$

Wage rates equation:

$$w_t = \delta_2 LS_t + \sum_{k=1}^{K} Z_{kt} \gamma_{kt} + \eta_{2t}$$

Labor supply *(LS)* is jointly determined with wages *(w)*. In this
formulation, *LS* is a linear function of the benefits *(B)*, the
benefit-reduction rate *(T)*, the individual's wage rate *(w)*, and a set of
variables *(X)* that statistically control for differences across individuals in
such things as age, race, occupation, and education. Wages are a function
of the labor supply decision and a slightly different set of control variables
(Z). Wages for individuals who are not working are usually estimated
using data from individuals who work. The parameter, δ, estimates the
impact of changes in the benefit level on the labor supply; the parameter,
λ, estimates the impact of changes in the benefit reduction rate. From
these estimates, it is possible to calculate the labor supply elasticities.[4]

Elasticity estimates are interpreted as the percentage change in hours
worked for every 1-percent change in such policy variables as the AFDC
benefit level or the AFDC benefit reduction rate. Labor supply elasticities
are used to assess the effects of changes in the AFDC benefit guarantee
level and the benefit reduction rate.

The model described above can be used to show the effects of the receipt
of cash welfare and food stamps on the labor supply of the AFDC recipient.
From economic theory it is possible to derive the potential direction of the
receipt of cash welfare on work effort. First, when wages are held
constant, an increase in the nonwage income, as represented by increases
in the basic benefit level, has an income effect and is expected to lead to a
decrease in hours of work. Second, increases in the wage rate may lead to
an income effect, in which workers decrease their hours of work, and to a
conflicting substitution effect, in which workers increase their hours of
work. Increases or decreases in the marginal tax rate on benefits (the
benefit-reduction rate) have the same effect on income as increases or
decreases in the wage rate. When there are changes in the grant level at
the same time that there are changes in the wage rate, the effect on labor
supply is unclear.

---

[4]The equations are shown for the t-th individual with a set of j = 1,...,J; or k = 1,...,K control variables.

In the sections that follow, we examine participation in public assistance programs, and review the empirical evidence of the disincentive effects of AFDC, food stamps, and Medicaid on the participation decisions and labor supply of low-income people who are potentially eligible for AFDC. We also present the evidence on the disincentive effects of participation in multiple programs. We discuss the statistical difficulties involved in estimating such disincentives and the implications that can be drawn from these studies.

Participation in the AFDC Program

Participation in AFDC can be attributed to demographic, economic, and administrative factors that may change over time (Robins, 1990). The demographic factors include the characteristics of the eligible population and such factors as the influence of any stigma associated with welfare (Moffitt, 1983). The economic factors include the real benefit levels, the marginal tax on earnings, and the level of unemployment in the community at large. The administrative factors include various aspects of the eligibility criteria for participation.[5]

Participation rate is defined several ways in the literature. All of the definitions use the number of AFDC recipients as a numerator. The denominator, however, includes (1) the number of all potentially eligible families at a given point in time, (2) the number of single-female headed households, and (3) the number of pretransfer poor.[6] The definition of participation rate as the percentage of all eligibles is probably the one most relevant for studying disincentives, but it includes the data most difficult to observe. While it is easier to observe single-female headed households and those families with pretransfer incomes below the poverty threshold, it is far from clear what percent of either group is potentially eligible for AFDC. Empirical estimates of the participation rate have used different definitions, thereby causing some confusion over what is being estimated. In the sections that follow, we identify what definition of participation rate was used in making the estimates.

---

[5]Eligibility for welfare benefits can only be determined when the person applies. Factors such as assets may cause an otherwise eligible person to be disqualified. For this reason, we can only observe potential eligibility.

[6]This is the number of families whose incomes before taxes and means-tested transfers are below the appropriate poverty threshold.

AFDC Participation Likely to Vary With the Characteristics of the Eligibles

Participation (as defined by the percentage of eligibles who receive AFDC) in AFDC or other welfare programs is likely to vary with the characteristics of the eligibles. Changes in either the benefit level or the benefit-reduction rate will change the set of families eligible for AFDC. Consequently, the observation of a change in the participation rate over time may be attributed to changes in the "demand" for welfare or to changes brought about by making a different set of families eligible.
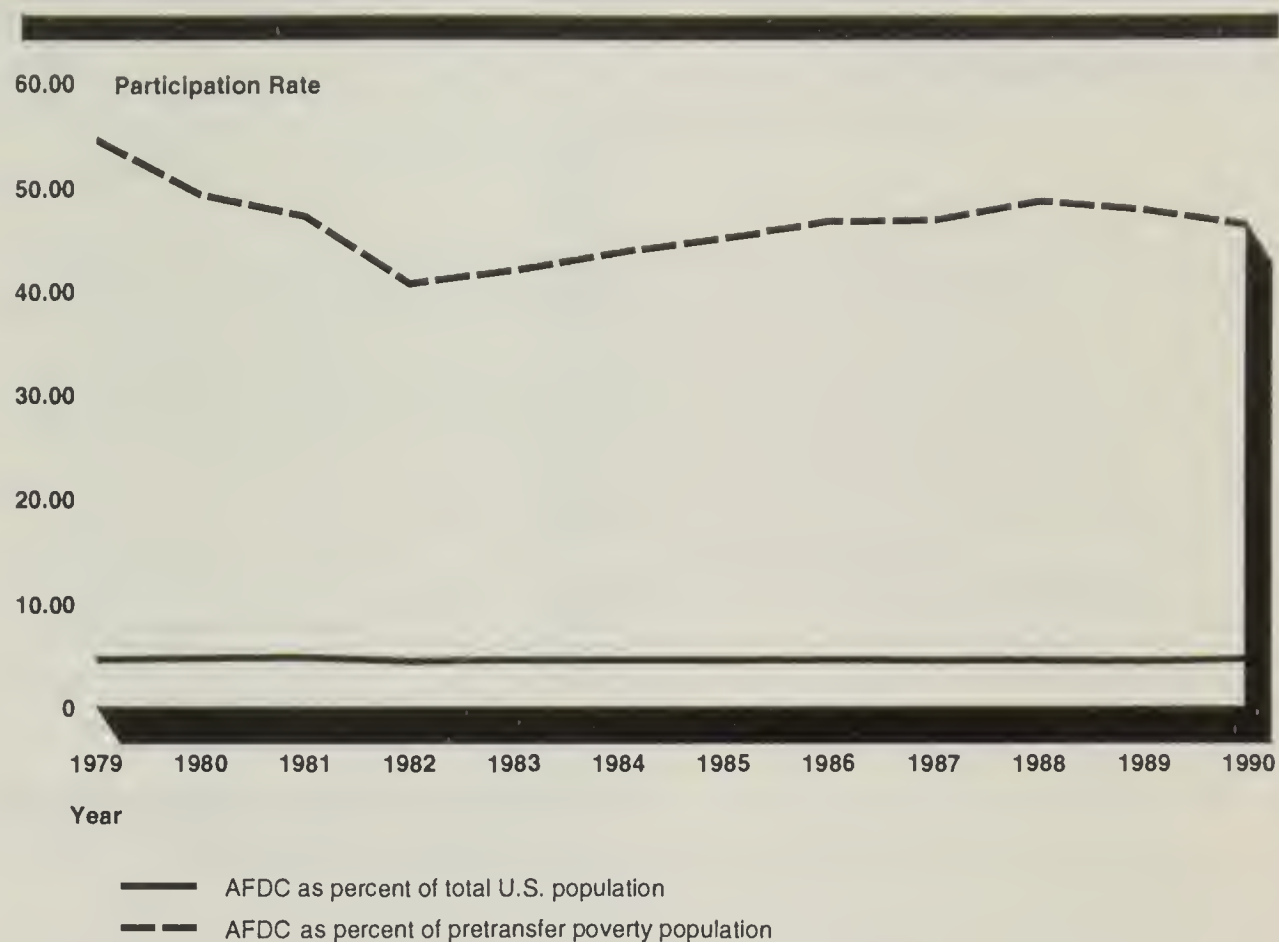
As real (adjusted for inflation) AFDC benefits fall, qualifying income levels also fall, meaning that fewer of the working poor can qualify.[7] This has implications for (1) who qualifies for AFDC and other transfers, (2) the extent that work disincentives have an impact on the number of families who choose to participate, and (3) the likelihood that working AFDC families will continue to participate. By looking at the participation rate of a population whose characteristics do not change with program parameters, one may get a better idea of how stable, over time, the extent of participation is.

The AFDC participation rates as a percentage of the total population and as a percentage of pretransfer poverty are shown in figure V.1 and table V.1.[8]

---

[7]The poverty threshold is indexed by the Consumer Price Index (CPI). Since welfare benefits are not indexed and may actually decline in real dollars, a smaller percentage of all those having incomes below the poverty threshold will qualify for benefits.

[8]The rate is defined as the percentage of AFDC recipients in the pretransfer poverty population. In all states, the maximum AFDC benefit is a fraction of the poverty threshold; therefore, families can have earned income that is below the poverty threshold and still not qualify for AFDC.

Figure V.1: Changes in the AFDC Participation Rate Over Time

60.00   Participation Rate

50.00

40.00

30.00

20.00

10.00

0

1979   1980   1981   1982   1983   1984   1985   1986   1987   1988   1989   1990

Year

——— AFDC as percent of total U.S. population

– – – AFDC as percent of pretransfer poverty population

Note: Poverty population is determined by the number of people whose income (cash income plus social insurance, but before taxes and means-tested transfers) falls below the poverty threshold.

Source: Overview of Entitlement Programs, U.S. House of Representatives, Committee on Ways and Means (1992), p. 663, table 24.

Table V.1: Changes in the AFDC Participation Rate Over Time

Year	AFDC recipients as percent of total U.S. population	AFDC recipients as percent of pretransfer poverty population
1979	4.52	54.5
1980	4.66	49.2
1981	4.74	47.1
1982	4.38	40.6
1983	4.51	41.9
1984	4.50	43.6
1985	4.47	45.0
1986	4.50	46.6
1987	4.45	46.7
1988	4.44	48.5
1989	4.35	47.6
1990	4.52	46.1
Averages	4.50	46.4

Source: Overview of Entitlement Programs, U.S. House of Representatives, Committee on Ways and Means (1992), p. 663, table 24.

Between 1979 and 1990, real AFDC benefits declined in all states except California. OBRA of 1981 raised the marginal tax rates from 67 percent to 100 percent (for families on AFDC longer than 12 months), thus lowering the break-even levels. During this time, AFDC recipients as a percentage of the total U.S. population remained relatively constant, ranging between 4.35 percent and 4.74 percent. The participation rate among the pretransfer poor, however, was more volatile and varied between 40.6 percent and 54.5 percent. To assess whether program changes or other factors affected participation in AFDC over this time, we reviewed some of the empirical literature.

Empirical Evidence Shows That Benefit Levels and Benefit-Reduction Rates Affect Participation

The empirical evidence suggests that AFDC participation rates vary with changes in the benefit-reduction rate and the AFDC benefit levels. Moffitt (1992) reviewed seven studies that estimated a static relationship between (1) participation and the basic AFDC guarantee and (2) participation and the benefit-reduction rate.[9] In these studies, the participation rate was defined across all single-female household heads with children. These

[9]A static estimation of welfare participation refers to measuring participation at a given point in time. A dynamic estimation, on the other hand, refers to measuring movement on and off a welfare program. Longitudinal data, observations of a sample of individuals over several periods of time, are often used to estimate dynamic rates of change.

studies showed that when the basic grant increased, families were more likely to participate in AFDC. As the break-even point declined, because of increases in the marginal tax rate, such families were less likely to participate.[10]

Moffitt also reviewed six studies that used longitudinal data to estimate the dynamic relationship between duration on welfare and the guarantee level. The longitudinal data were used primarily to estimate the probabilities of exit from welfare but, in some studies, the likelihood of entry into welfare was estimated. Only one of the dynamic studies attempted to adjust for the heterogeneity problem.[11] In these studies, the median time on welfare ranged from 12 to 36 months. In five of the six studies, as the guarantee level increased, the probability of going off welfare significantly declined. In two of the six studies, the probability of going on welfare was also estimated and found to increase significantly as the benefit level rose.

Robins (1990) suggested that participation in AFDC increases when the break-even level increases because more families become eligible for benefits. He further suggested "...that an increase in the AFDC break-even level will induce some families initially above the break-even level to reduce their labor supply in order to become eligible for benefits" (p. 248).

Bassi (1990) estimated a model that jointly determined food stamp and AFDC participation over the period 1967 to 1979. The single most important source of growth in AFDC participation rates, she concluded, was a reduction in the implicit marginal tax rate. Her analysis was limited because she was only able to observe 1 year (1968) when the marginal tax rate was 100 percent; she did not observe the change in the marginal tax rate from 67 percent to 100 percent mandated by OBRA 1981. Nevertheless, her findings are consistent with those in the studies reviewed by Moffitt and the study by Robins.

---

[10]Estimation across all female household heads without correcting for those who are potentially eligible can lead to a confounding of factors that determine AFDC participation. This is especially true when the estimation is done over periods in which there have been changes in the grant level or break-even point. A model that estimates AFDC participation must correct for whether the family is eligible. For example, since eligibility income varies across states, holding income constant without adjusting for eligibility will not permit observation of the role income plays in the decision to participate.

[11]Changes in the AFDC benefit or tax levels will change the composition of families eligible for AFDC. Families will participate, in part, because of unobservable attributes, such as how they view any stigma attached to welfare. As family composition changes, it is necessary to adjust for changes in participation levels that occur because the new pool of eligibles may have a different distribution of observable characteristics, such as age, race, education, and potential income, or unobservable characteristics, such as tolerance for being on welfare.

The participation rate studies used data from the 1970s and early 1980s; in these studies, some variations in the benefit-reduction rate were observed. Only a few of these studies, however, took into account the increase in the rate from 67 percent to 100 percent that occurred in 1981 and then for only 1 or 2 years of observed impact. Consequently, our understanding is limited concerning the effects of changes in the benefit-reduction rate on participation. Nevertheless, most of these studies showed that when the grant level increased, the likelihood of participating in the AFDC program increased. When the benefit-reduction rate increased, the likelihood of participating in AFDC decreased.

Disincentive Effects of AFDC

The disincentive effects of AFDC are likely to be greater on those working at the time that they receive AFDC than on those discouraged from working because of the existence of AFDC. While only a small subset of the AFDC population reports earned income, the disincentive effect of AFDC could be much larger if recipients are discouraged from working. In fiscal year 1990, 6.7 percent of all AFDC female household heads reported earned income; among those who did, the monthly earnings averaged $318. Less than half of those who reported earnings worked full time. While the percentage who report earnings and the average earnings were similar for the years 1982 to 1990, as recently as 1979 nearly twice as many AFDC heads—13 percent—had earned income (see table V.2).[12]

---

[12]Jencks (1992) found evidence that AFDC recipients underreported earned income. While the sample used was not nationally representative (it came only from Chicago), it is reasonable to conclude that such underreporting occurs in other areas as well. To the extent that this is true, the actual number of employed AFDC recipients may be much larger than suggested by the numbers in table V.2.

Table V.2: Employment and Earnings Status of AFDC Female Household Heads (Selected Years)

Year	Percent of AFDC female household heads with earnings			Average monthly earnings[c]
	Total	Full-time[a]	Part-time[b]	
1979[d]	13.0	8.0	5.0	$382
1982[e]	5.6	1.3	4.3	261
1983	4.9	1.5	3.4	NA
1986	5.8	1.6	4.2	264
1988	6.3	2.1	4.2	276
1989	6.9	2.4	4.5	296
1990	6.7	2.5	4.2	318

[a]Full-time is reported as 35 hours or more per week in 1979 and 1982, 30 hours or more per week in the other years.

[b]Part-time is less than 35 hours in 1979 and 1982, less than 30 hours in other years

[c]Average monthly income of those who report earnings is in current dollars.

[d]Amounts calculated for March 1979 only.

[e]Amounts calculated for May 1982 only.

NA=not available

Source: Overview of Entitlement Programs, U.S. House of Representatives, Committee on Ways and Means (1992) pp. 671 and 672, tables 30 and 31.

Receiving AFDC Leads to a Reduction in the Employment Rate

When the AFDC guarantee and the marginal tax on earnings increase, the employment rate decreases, several studies have found. As reported by Danziger, Haveman, and Plotnick (1981), studies by Garfinkel and Orr showed that among welfare recipients, a $500 increase in the guarantee is predicted to lead to a 2.4-percentage-point reduction in employment and a 10-percentage-point increase in the marginal tax is predicted to lead to a 1.4-percentage-point reduction in employment. For the same changes, Danziger, Haveman, and Plotnick reported that Williams found levels of employment lowered by 5.8 and 2.1 percent, respectively.

When Blau and Robins (1986) estimated the probabilities of entering and exiting the labor market states of employment, unemployment, or out-of-the-labor-force, they found that when compared with the nonwelfare population, welfare recipients were significantly more likely to leave employment and significantly less likely to enter employment. They concluded that "...virtually all the significant differences in the transition

concluded that "...virtually all the significant differences in the transition rates between welfare and nonwelfare recipients are consistent with a work disincentive effect" (p. 93).

Estimates of Impact of AFDC on Hours of Work Vary Widely

Some of the empirical evidence on the disincentive effects of AFDC suggests that hours of work decrease as the basic benefit increases and also when the benefit reduction rate increases (Moffitt, 1992). Levy (1979), however, suggested that there is a decrease in labor supply when the benefit reduction rate decreases. The estimates of the impact of AFDC on welfare recipients' hours of work vary widely depending on the research method used, the database, and the sample. Consequently, while there is relatively persuasive evidence that receipt of AFDC leads to a decrease in hours of work, the amount of the decrease is subject to dispute. Variation in the estimates is illustrated in the studies summarized below.

To illustrate the effect of changes in the basic benefit and the benefit-reduction rate, Moffitt summarized the findings on the disincentive effect of AFDC, measured across all female household heads, for hours of work (see table V.3). When there are low wage and income elasticities,[13] the work disincentive effect increases with increases in the benefit-reduction rate and the basic benefit level. Thus, when benefits decline at the rate of $1 for each $1 increase in earnings (as under current law), hours of work will decline by 0.81 hours when the basic benefit is about 50 percent of the poverty level and by 4.02 hours per week when benefits are about 100 percent of the poverty level. When these values are extrapolated to the AFDC population, work effort reductions average between 2.00 and 8.32 hours of work per week.

---

[13]Defined as the percentage change in wages (or income) relative to the percentage change in AFDC benefit levels.

Table V.3: Effect of AFDC on Weekly Hours of Work of Female Household Heads

Elasticities	Benefit-reduction rate (marginal tax rate)	
	1.00	0.75
Low[a]	Changes in hours of work	
G=0.50[b]	−0.81	−0.49
G=0.75	−2.18	−1.08
G=1.00	−4.02	−1.74
High	Changes in hours of work	
G=0.50	−2.06	−2.22
G=0.75	−4.62	−4.99
G=1.00	−7.34	−7.92

Note: To determine the estimated reduction in the hours of work per week for the working AFDC recipient, choose (1) a high or low elasticity and (2) the basic guarantee as a percentage of the poverty threshold.

[a]Low wage and income elasticities are 0.05 and −0.02, respectively; high wage and income elasticities are 0.20 and −0.25, respectively. Elasticities are the percentage change in hours of work for every percentage change in wages and income.

[b]G = Guarantee as a percentage of the official U.S. government poverty threshold for each family size.

Source: Robert Moffitt, "Incentive Effects of the U.S. Welfare System: A Review," Journal of Economic Literature (Mar. 1992), table 5, p. 18.

Levy (1979), on the other hand, arrived at different conclusions regarding the benefit-reduction rate than did Moffitt. From a random sample of potential AFDC-eligible female household heads, Levy calculated labor supply elasticities for a representative family (see table V.4). In his analysis, a 1.0-percent increase in the AFDC basic payment led to a 0.9- to 1.5-percent decrease in the amount of work of the representative potential AFDC recipient. In addition, a 1.0-percent increase in the benefit-reduction rate (that is, marginal tax rate) led to a 0.19- to 0.65-percent increase in the hours of work. Finally, as the income disregard increased by 1.0 percent, the hours of work decreased between 0.01 and 0.08 percent.[14] As work incentives increased (in the form of increased benefit amounts and reduced tax rates), total hours worked by the population decreased.

---

[14]An increase in the income disregard is the same as an increase in disposable income. The effect shows that workers are far more responsive to changes in the basic benefit than to the disregard. This may be attributed to how disregards are taxed.

Table V.4: Ranges of Calculated Annual Labor Supply Elasticities With Respect to Various AFDC Parameters

	Range of elasticities	
AFDC policy variable	Minimum	Maximum
Basic payment	−.90	−1.50
Marginal tax rate	.19	.65
Income disregard	−.01	−.08

Note: For each AFDC policy variable, the range of elasticities shows how much a 1 percent change in that variable will affect the percentage change in the annual hours of work of AFDC recipients. A negative sign indicates an increase in the variable will decrease labor supply.

Source: Frank Levy, "The Labor Supply of Female Household Heads, or AFDC Work Incentives Don't Work Too Well," Journal of Human Resources (1979).

Levy's estimates suggest that under selected conditions, increasing the basic payment from $55 a month to $278 a month reduces expected labor supply by about 1,150 hours per year. Levy concluded that liberalized work incentives, such as lowering the benefit reduction rate or increasing the amount of income disregards, will probably encourage some household heads to increase work. But this will be more than offset by the work reductions of others and could potentially induce others who had not been on the program to participate in the welfare system.

Danzinger and others (1981) summarized several studies estimating the effects of changes in the grant level on work effort. In one of the studies summarized, Hausman found that raising the annual AFDC guarantee by $1,000 reduced work by 120 hours a year. In another of these studies, Moffitt suggested that such an increase would lead to a reduction in work effort of 90 hours per year. Danzinger concluded that on the basis of these studies in 1975, because of AFDC, a typical recipient worked 520 hours less a year than would have been expected.[15]

There is general agreement that increasing the AFDC basic benefit levels leads to reduced work effort by those who are already receiving AFDC. The conflicting results of the empirical analysis regarding the benefit-reduction rate suggest further research is needed. Presently, not much is known about the labor supply impacts of the change in the benefit-reduction rate from 67 percent to 100 percent. The analysis is consistent in suggesting that there is no support for the idea that women who are initially ineligible will reduce work effort to receive AFDC benefits.[16]

---

[15]It should be noted, however, that it is not possible to estimate fully the effects of what would have happened if there had been no AFDC program since the program does, in fact, exist.

[16]See, for example, Bassi (1990) and Moffitt (1992).

Effects of Multiple-Program Participation on Work Effort

Little attention has been paid to the effects multiple program participation has on the labor supply of AFDC recipients. Families receiving AFDC are automatically eligible for Medicaid and most are eligible for food stamps. Housing rental assistance, however, is not an entitlement program for AFDC recipients. In 1990, among AFDC recipients, 85.6 percent received food stamps, 9.7 percent lived in public housing, and 12.3 percent received other forms of federal rent subsidy. In the sections below, we discuss some of the empirical evidence regarding multiple program participation and labor supply behavior.

Food Stamps Have Little Effect on Labor Supply

Fraker and Moffitt (1988) estimated the effects of the receipt of both AFDC and food stamps on the labor supply of single-female household heads and concluded that receiving food stamps had only a slight effect on the recipient's labor supply. Their results suggest that the existence of the Food Stamp program reduces the labor supply of participants by about 9 percent; however, marginal changes in the food stamp benefit amount had only small effects on overall labor supply. A 10-percent increase in the food stamp guarantee reduced average hours of work by 0.2 hours per week for all recipients, but only by 0.6 hours per week among workers. We were unable to find other published reports that attempted to measure the disincentive effects of the receipt of food stamps; therefore, further research is warranted before these results can be taken as definitive.

Medicaid Has Limited Effect on Labor Supply

Several researchers have estimated the effects of the receipt of Medicaid on the labor supply and AFDC participation of recipients.[17] Their results suggest that the existence of Medicaid has only a limited effect on the recipient's labor supply decision, but its greatest impact may be among those with the greatest medical need.

To measure the effects of the Medicaid program on labor supply or on AFDC participation requires being able to define what the value of the benefit is to the recipient. This poses difficulties in that the benefit value must adjust for such things as the health of the recipient and the market price of comparable insurance. Neither is well observed. The impact of Medicaid on AFDC participation poses a particular problem since Medicaid eligibility is automatic with AFDC. What researchers have sought instead is to determine the extent to which families receive AFDC in order to obtain the medical coverage that is available under Medicaid.

---

[17]See, for example, Moffitt and Wolfe (1989), Blank (1989b), and Winkler (1991).

In 1980, in 20 states, only the categorically eligible could receive Medicaid, while 29 states and the District of Columbia participated in the medically needy program.[18] Blank (1989b) used that to jointly estimate hours of work and AFDC participation among the medically needy. She found that the average insurance value of Medicaid had little impact on participation in AFDC except for those with the greatest medical need. She concluded that greater health needs induce greater use of the AFDC program.

Two other studies have contributed to the debate on whether the receipt of Medicaid affects labor supply. Winkler (1991) expanded on the Blank study to estimate more directly the impact of Medicaid on labor supply. She found that Medicaid had a generally significant but small impact on whether the average female household head was employed, but no had impact on the number of hours worked. She estimated that a 10-percent increase in Medicaid's market value would lead the average female household head's employment probability to fall by 0.9 to 1.3 percentage points. This suggests a very inelastic response.

Moffitt and Wolfe (1989) suggested that the AFDC participation and employment effects of the Medicaid program appear to be concentrated among those with the highest expected Medicaid expenditures. Medicaid appears not to affect the decisions of the majority of female household heads regarding AFDC participation or employment. However, they further concluded that the net result of raising the average Medicaid value by one-third would be a 2-percent increase in AFDC participation.

Implications for Self-Sufficiency and the FSS Program

The empirical evidence suggests that once families start receiving AFDC there are disincentives in the program that may lead to reduced work effort. Raising benefits appears to lead to a decrease in work effort. Lower real benefits, however, will make the family worse off financially. Decreasing the benefit-reduction rate, thus letting working families keep more of their income, may have the positive effect of increasing work effort. But the decrease in the benefit-reduction rate will raise the break-even levels and that will probably increase the number of families who qualify for benefits. The effect on work effort, however, will be ambiguous. Further research into the effects of changes in the benefit-reduction rate is warranted if policy changes are anticipated. How the effects discussed here for AFDC will influence FSS participants cannot

---

[18]In 1980, Medicaid was available to two broad classes of eligible persons: the "categorically needy" and the "medically needy." These terms distinguished between welfare recipients who had categorical eligibility for Medicaid and those who were eligible under special Medicaid rules. More recently, these distinctions have become blurred. One site, Arizona, had no Medicaid program in 1980.

be known until more is known about who participates in the FSS program
and how many of them are AFDC recipients. Further research into the
implications of the joint receipt of AFDC and rental housing assistance is
also warranted.

Major Contributors to This Report

Human Resources Division, Washington, D.C.

Henry E. Felder, Assistant Director and Senior Economist, (202) 512-7005
Thomas L. Hungerford, Project Manager and Senior Economist

Bibliography

Acs, Gregory. Welfare, Work, and Dependence: The Impact of AFDC on Women's Labor Market Activity. Washington, D.C.: The Urban Institute, 1990.

Antel, John J. "The Intergenerational Transfer of Welfare Dependency: Some Statistical Evidence." Review of Economics and Statistics, Vol. 47 (Aug. 1992).

Bane, Mary Jo, and David T. Ellwood. "Slipping Into and Out of Poverty: The Dynamics of Spells." Journal of Human Resources (Winter 1986).

Bassi, Laurie J. "Employment and Welfare Participation among Women." Economic Inquiry, Vol. 28, No. 2 (1990).

_____, and Orley Ashenfelter. "The Effect of Direct Job Creation and Training Programs on Low-Skilled Workers." In Fighting Poverty: What Works and What Doesn't, eds. Sheldon Danziger and Daniel Weinberg. Cambridge, Mass.: Harvard University Press, 1986.

Belman, Dale, and John S. Heywood. "Sheepskin Effects in the Returns to Education: An Examination of Women and Minorities." Review of Economics and Statistics, Vol. 73, No. 4 (1991).

Blank, Rebecca M. "The Impact of State Economic Differentials on Household Welfare and Labor Force Behavior." Journal of Public Economics, Vol. 28 (1985).

_____. "Analyzing the Length of Welfare Spells." Journal of Public Economics, Vol. 39 (1989a).

_____. "The Effect of Medical Need and Medicaid on AFDC Participation." Journal of Human Resources, Vol. 24, No. 1 (1989b).

_____. "Are Part-Time Jobs Bad Jobs?" In A Future of Lousy Jobs?, ed. Gary Burtless. Washington, D.C.: The Brookings Institution, 1990.

_____. The Employment Strategy: Public Policies to Increase Work and Earnings. Evanston, Ill.: Northwestern University, 1992.

Blau, David M., and Philip K. Robins. "Labor Supply Response to Welfare Programs: A Dynamic Analysis." Journal of Labor Economics, Vol. 4, No. 1 (1986).

Bloom, Howard S., and others. The National JTPA Study: Title II-A Impacts on Earnings and Employment at 18 Months. Bethesda, Md.: Abt Associates, Inc., May 1992.

Burtless, Gary. "The Effect of Reform on Employment, Earnings, and Income." Welfare Policy for the 1990s, eds. Phoebe H. Cottingham and David T. Ellwood. Cambridge, Mass.: Harvard University Press, 1989.

_____, and Jerry A. Hausman. "The Effect of Taxation on Labor Supply: Evaluating the Gary Negative Income Tax Experiment." Journal of Political Economy, Vol. 86, No. 6 (1978).

Card, David, and Daniel Sullivan. "Measuring the Effect of Subsidized Training Programs on Movements in and out of Employment." Econometrica, Vol. 56, No. 3 (1988).

Corcoran, Mary, and others. Intergenerational Transmission of Education, Income, and Earnings. Ann Arbor, Mich.: University of Michigan, 1987.

Couch, Kenneth A. "New Evidence on the Long-term Effects of Employment Training Programs." Journal of Labor Economics, Vol.10, No. 4 (1992).

Danzinger, Sheldon, Robert Haveman, and Robert Plotnick. "How Income Transfer Programs Affect Work, Savings, and the Income Distribution: A Critical Review." Journal of Economic Literature, Vol. 19, No. 3 (1981).

Duncan, Greg J., and Richard D. Coe. "The Dynamics of Welfare Use." In Years of Poverty, Years of Plenty. Ann Arbor, Mich.: Institute for Social Research, 1984.

Duncan, Greg J., Richard D. Coe, and Martha S. Hill. "The Dynamics of Poverty." In Years of Poverty, Years of Plenty. Ann Arbor, Mich.: Institute for Social Research, 1984.

Duncan, Greg J., and Saul D. Hoffman. "The Use and Effects of Welfare: A Survey of Recent Evidence." Social Science Review (June 1988).

Ellwood, David T. Targeting "Would-Be" Long-Term Recipients of AFDC. Princeton, N.J.: Mathematica Policy Research, Inc., 1986.

Ellwood, David T., and E. Kathleen Adams. "Medicaid Mysteries: Transitional Benefits, Medicaid Coverage, and Welfare Exits." Health Care Financing Review, Annual Supplement (1990).

Fitzgerald, John. "Welfare Durations and the Marriage Market." Journal of Human Resources, Vol. 26 (1991).

Fraker, Thomas, and Robert Moffitt. "The Effect of Food Stamps on Labor Supply: A Bivariate Selection Model." Journal of Public Economics, Vol. 35 (1988).

Fraker, Thomas, Robert Moffitt, and Douglas Wolf. "Effective Tax Rates and Guarantees in the AFDC Program, 1967-1982." Journal of Human Resources, Vol. 20, No. 2 (1985).

Friedlander, Daniel, and Judith M. Gueron. "Are High-Cost Services More Effective than Low-Cost Services?" In Evaluating Welfare and Training Programs, eds. Charles F. Manski and Irwin Garfinkel. Cambridge, Mass.: Harvard University Press, 1992.

Garfinkel, Irwin, and Larry Orr. "Welfare Policy and Employment Rate of AFDC Mothers." National Tax Journal, Vol. 27, No. 2 (1974).

Gottschalk, Peter. "AFDC Participation Across Generations." American Economic Review, paper and proceedings, Vol. 80, No. 2 (May 1990).

_____. Is the Correlation in Welfare Participation across Generations Spurious? Boston: Boston College, 1992a.

_____. "The International Transmission of Welfare Participation: Facts and Possible Causes." Journal of Policy Analysis and Management, Vol. 11, No. 2 (1992b).

Gueron, Judith M., and Edward Pauly. From Welfare to Work. New York: Russell Sage Foundation, 1991.

Ham, John C., and Robert J. LaLonde. Estimating Training's Effects on Employment and Unemployment Durations: Lessons from Experimental Data. Chicago: University of Chicago (1991).

Hausman, Jerry. "The Effect of Wages, Taxes and Fixed Costs on Women's Labor Force Participation." Journal of Public Economics, Vol. 14 (1980).

Hutchens, Robert M. "Entry and Exit Transitions in a Government Transfer Program: The Case of Aid to Families With Dependent Children." Journal of Human Resources, Vol. 16, No. 2 (1981).

Jencks, Christopher. Rethinking Social Policy. Cambridge, Mass.: Harvard University Press, 1992.

Kaufman, Bruce E. The Economics of Labor Markets and Labor Relations. Chicago: The Dryden Press, 1989.

Killingsworth, Mark R., and James J. Heckman. "Female Labor Supply: A Survey." In Handbook of Labor Economics, eds. Orley C. Ashenfelter and Richard Layard. Amsterdam: North-Holland, 1986.

LaLonde, Robert J. "Evaluating the Econometric Evaluations of Training Programs with Experimental Data." American Economic Review, Vol. 76, No. 4 (1986).

LaLonde, Robert, and Rebecca Maynard. "How Precise Are Evaluations of Employment and Training Programs?" Evaluation Review, Vol. 11, No. 4 (1987).

Levy, Frank. "The Labor Supply of Female Household Heads, or AFDC Work Incentives Don't Work Too Well." Journal of Human Resources, Vol. 14, No. 1 (1979).

Mead, Lawrence. "The Logic of Workfare: The Underclass and Work Policy." Annals, Vol. 501 (1989).

Moffitt, Robert. "An Economic Model of Welfare Stigma." American Economic Review, Vol. 73, No. 5 (1983).

_____. "Work Incentives in the AFDC System: An Analysis of the 1981 Reforms." American Economic Review, papers and proceedings, Vol. 76, No. 2 (May 1986).

_____. "Historical Growth in Participation in Aid to Families With Dependent Children: Was There a Structural Shift?" Journal of Post Keynesian Economics, Vol. 9, No. 3 (1987).

_____. "Incentive Effects of the U.S. Welfare System: A Review." Journal of Economic Literature, Vol. 30, No. 1 (1992).

_____, and Barbara Wolfe. "The Effect of the Medicaid Program on Welfare Participation and Labor Supply." Working Paper No. 3286. Cambridge, Mass.: National Bureau of Economic Research, 1989.

Murray, Michael. "A Reinterpretation of the Traditional Income-Leisure Model, With Applications to In-Kind Subsidy Programs." Journal of Public Economics, Vol. 14 (1980).

O'Neill, June A., Laurie J. Bassi, and Douglas A. Wolf. "The Duration of Welfare Spells." Review of Economics and Statistics, Vol. 69, No. 2 (1987).

Pencavel, John. "Labor Supply of Men: A Survey." In Handbook of Labor Economics, eds. Orley Ashenfelter and Richard Layard. Amsterdam: North-Holland, 1986.

Plant, Mark W. "An Empirical Analysis of Welfare Dependence." American Economic Review, Vol. 74, No. 4 (1984).

Plotnick, Robert. "Turnover in the AFDC Population: An Event History Analysis." Journal of Human Resources, Vol. 18, No. 1 (1983).

Riccio, James, and Daniel Friedlander. GAIN: Program Strategies, Participation Patterns, and First-Year Impacts in Six Counties. New York: Manpower Demonstration Research Corporation, May 1992.

Robins, Philip K. "Child Support, Welfare Dependency, and Poverty." American Economic Review, Vol. 76, No. 4 (1986).

_____. "Explaining Recent Declines in AFDC Participation." Public Finance Quarterly, Vol. 18, No. 2 (1990).

Ruggles, Patricia. Drawing the Line: Alternative Poverty Measures and Their Implications for Public Policy. Washington, D.C.: The Urban Institute, 1990.

Schwarz, John E., and Thomas J. Volgy. "Social Support for Self-Reliance: The Politics of Making Work Pay." The American Prospect, Vol. 9 (Spring 1993).

Solon, Gary, and others. "Sibling and Intergenerational Correlations in Welfare Program Participation." Journal of Human Resources, Vol. 23 (1988).

U.S. Bureau of the Census. Transitions in Income and Poverty Status: 1985-1986, Current Population Reports, Series P-70, No. 18. Washington, D.C.: U.S. GPO, 1990.

U.S. Congress. Senate, Committee on Finance, Subcommittee on Social Security and Family Policy. Hearings on Welfare Dependency. Testimony by Greg J. Duncan, Mar. 4 and 8, 1991.

U.S. Congressional Budget Office. Work-Related Programs for Welfare Recipients. Washington, D.C.: U.S. CBO, Apr. 1987.

U.S. General Accounting Office. Job Training Partnership Act: Services and Outcomes for Participants With Differing Needs, GAO/HRD-89-52, June 9, 1989.

_____. Welfare to Work: States Begin JOBS, but Fiscal and Other Problems May Impede Their Progress, GAO/HRD-91-106, Sept. 27, 1991.

_____. Public and Assisted Housing: Linking Housing and Supportive Services to Promote Self-Sufficiency, GAO/RCED-92-142BR, Apr. 1, 1992.

Weinberg, Daniel. "Filling the 'Poverty Gap': Multiple Transfer Program Participation." Journal of Human Resources, Vol. 20, No. 1 (1985).

_____. "Filling the 'Poverty Gap,' 1979-1984." Journal of Human Resources, Vol. 22, No. 4 (1987).

Williams, Robert. Public Assistance and Work Effort. Princeton, N.J.: Industrial Relations Section, Princeton University, 1975.

Winkler, Anne E. "The Incentive Effects of Medicaid on Women's Labor Supply." Journal of Human Resources, Vol. 26, No. 2 (1991).

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use $300